

**Holley, Inc.**  
**Fourth Quarter 2023 Earnings Conference Call**  
**February 28, 2024**

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**Presenters**

**Ross Collins, Investor Relations**  
**Matt Stevenson, President and Chief Executive Officer**  
**Jesse Weaver, Chief Financial Officer**

**Q&A Participants**

**Brian McNamara - Canaccord Genuity**  
**Joe Altobello - Raymond James**  
**Christian Carlino - JPMorgan**  
**John Lawrence - The Benchmark Company**  
**Joe Feldman - Telsey Advisory Group**  
**Sabrina - William Blair**

**Operator**

Greetings, and welcome to the Holley Fourth Quarter 2023 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press “\*”, “0” on your telephone keypad.

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ross Collins, Investor Relations. Thank you, Ross. You may begin.

**Ross Collins**

Thank you, Operator. Good morning, and welcome to Holley's Fourth Quarter 2023 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.

From time to time, we post new information that may be of interest or material to investors on this website. Our discussion, today, includes forward-looking statements that are based on our best view of the world and of 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 share our guidance for the first quarter and full year 2024. As always, we'll leave time for your questions at the end. And with that, I'll turn the call over to our CEO, Matt Stevenson.

**Matt Stevenson**

Thank you, Ross, and good morning, everyone. Since joining Holley nine months ago, it has become increasingly clear to me that we have only just begun to uncover the vast potential for growth that this remarkable company possesses.

During today's call, we will delve into the details of our organization's comprehensive transformation and the key areas we are focusing on to unlock this growth. We also highlight our emphasis on the consumer verticals and how we plan to position our offerings in the market.

But first, I'll discuss the results of the fourth quarter. I'm incredibly proud of the Holley team and the effort they put forth in 2023, a tremendous amount of change and hard work to deliver a year that was pivotal in the stabilization of the company.

All this effort paid off, as we delivered a solid Q4 and came in at the top end of our guidance for the year on adjusted EBITDA.

Now let's take a look at some of the highlights from Q4 on Slide 5. If you take away one thing from our presentation, today, it should be that we are laser-focused on unlocking growth, while delivering annual gross margins of 40% and adjusted EBITDA margins of 20% or greater.

For Q4 on the top line, we delivered another quarter of year-over-year revenue growth, which makes two in a row for us. Although that growth engine is not yet where we want it to be, it shows we are headed in the right direction. Our margins have also significantly increased year-over-year, thanks to improvements in our cost-to-serve efforts and effective management of our discretionary spending.

Free cash flow was up, substantially, over the prior year, and with such strong cash flow generation, we were able to prepay another \$25 million in debt during the fourth quarter. Considering our \$25 million debt paid out at the end of September, we have prepaid a total of \$50 million in debt in just the last four months of 2023.

As we discussed last quarter, Philip Dobbs, the former Chief Marketing Officer of Bridgestone, joined our team, last fall. Under Phillip's leadership, the team has identified numerous short-term opportunities to capitalize on contributing to our positive year-over-year growth.

While prioritizing quick wins in our operations, we are also fully immersed in a transformative journey to unlock sustainable profitable growth by building best-in-class capabilities with experienced leaders, which we will discuss later in the call.

On Slide 6, you can see some of the high-level financial results for the quarter, in addition to some of the key business highlights. As I mentioned, net sales were up year-over-year and came

in at nearly \$156 million. Gross margins and EBITDA margins were up, substantially, year-over-year, 800 basis points and 850 basis points, respectively.

Free cash flow was just under \$30 million, which was dramatically up year-over-year, when cash flow was actually negative for this quarter in 2022. On the right side of the slide, you can see some of the business highlights for Q4. The product innovation pipeline continues to be robust with many new products launched during the quarter.

In the domestic muscle vertical, we launched the Flowmaster 2024 Ford Mustang Outlaw Axle-back exhaust, which enhances the sound appearance and performance of both the 2.3-liter EcoBoost in the 5-liter engines.

In the off-road vertical, we introduced the Simpson Racing SD1 lightweight helmet, an engineered solution that combines our popular Simpson helmet styling with features specifically designed for dirt racing enthusiasts, such as an intake, exhaust ports, and improved cheek pad design for hydration and communication.

In the Euro and Import Vertical, our Dinan brand launched another popular Cold Air Intake solution for the BMW M240, M340, and M440 platforms, all which share the B58 engine. Earlier in the year, we introduced a Premium Carbon Fiber Intake, and in Q4, we released a more affordable Pax version, allowing more Dinan fans to enhance performance, style, and personalization of their BMWs.

We have also improved our promotional capabilities. One thing that we lacked before in our business was a thorough external communication strategy. With some outside support, we have created a media strategy to increase awareness of our products.

In just the fourth quarter, we achieved 670 million media impressions with this strategy, which we believe is a very economical way to spread the news about all the excellent brands and products that we have to offer.

In addition, we have made improvements to our sales promotion. Previously, our distribution partners were not included in our promotional efforts. This resulted in not promoting our products as desired during these time periods and in some cases, even promoting our competitors' products to preserve their margins. We have addressed this issue in our new approach.

After involving our partners this year, we have witnessed a sales increase of more than 10% year-over-year, during our Holley Day sales, which launched right before Black Friday, and a 7% increase during our promotion that supported the performance racing industry event in early December.

Now, our operations team works hard to ensure we have the right products at the right time, at the right place. This requires a lot of coordination, including managing our forecasting process, supply chain, manufacturing footprint, and our distribution center. All that has to work together to be successful. Through better forecasting and improved sign-off process, we are advancing and having better inventory availability of our top products.

We also lowered past dues by \$5 million this quarter, and a major reason for that was increasing the availability of our top 2,500 SKUs by almost 5%. Thanks to the improvements in our processes, we generated an additional \$14 million of free cash flow by reducing our inventory levels.

On the left side of Slide 7, you can see the three core steering principles that guide us. We aim to turn these principles into reality by concentrating on the four main areas on the right.

The first one is about our teammates and making Holley a great place to work. The second area is about improving our operations to not only eliminate unnecessary activities that increase costs but also ensure we have the right products in stock and the right inventory levels to meet the market demand.

Moreover, we must provide our enthusiast consumers and distribution partners with the best omnichannel customer experience in our industry.

The third key area is optimizing our acquisitions. Holley has added some great brands and businesses to our portfolio in recent years, and we appreciate their distinct characteristics.

We must support these differences to help them succeed in their particular markets. We strive to ensure that there is no one-size-fits-all approach and that the appropriate structure is in place with leadership and accountability to help these businesses reach outstanding market growth in their respective areas.

And finally, we are focused on putting all customers first. This includes not only our wonderful base of consumers but also our loyal distribution partners. We are looking for ways to grow and extend our sales channels in an effort to reach and serve a wider range of enthusiasts. In previous calls, we briefly mentioned the transformation taking place at Holley.

During this call, we will delve deeper into the details of our progress and the key elements we are focusing on in this journey.

Now Slide 8 shows this journey and the four major building blocks in making this transformation a reality.

We are about midway through the process with more work ahead. We started by enhancing the core elements of accountability empowerment such as improved communication, KPIs by

function, and a daily rhythm of reporting and reviewing results in the practice of major project and program reviews.

We also defined additional requirements of our leaders and what we expect from them. Then we started to sharpen our focus in the organization by segmenting the market and ranking the opportunities with the highest growth potential. We brought more discipline into the business and used different data sources to identify quick wins and key priorities for the next 12 months.

We then launched specific projects and programs aimed to take advantage of those opportunities. We also began partnering with our distributors to find ways to grow our collective business and brought in some new talent to help drive change.

We are currently at the core of the transformation where we are not only investing time in training our leaders in various aspects, but we have also recently completed a restructuring event that will help propel our organizations to new heights.

This restructuring has enabled us to realign our company's go-to-market strategies around our customer verticals and bringing expertise in critical leadership functions, which will help drive our transformation and unlock key elements of our growth strategy. Growth is at the center of everything we are focused on, but we believe there are four keys in unlocking this growth.

Let's look at those in more detail on Slide 9. The key to unlock growth for us include product innovation, promotional excellence, strategic pricing and targeted M&A. As a leading consumer automotive enthusiast platform, we are focused on the needs of our customers in directing our resources towards the growing segments and categories of the market.

To achieve this, we will remove slow-moving products from our portfolio and focus our resources on what matters. By implementing our product phase gate system, we are prioritizing innovation and focusing on high-impact projects, accelerating their time to market.

We are also revamping our product launch capabilities, which will ensure that all key elements of sales and marketing are aligned with the necessary resources to drive faster market adoption in both our B2B and D2C channels.

In terms of promotional capabilities, our aim is to be at the forefront of the industry. And in today's world, that means excelling in digital marketing. We are upgrading items such as our product data structure, SEO, paid search, and digital assets to ensure maximum awareness and adoption of our products.

Now enhancing engagement with our customers is always a top priority.

For instance, in our customer engagement center, where consumers call for advice and product information, we have significantly improved our answer rates and overall customer experience.

Soon, we will launch a CRM system that will enable our team members to better serve our customers with more detailed information on their purchase history and the vehicles in the garages.

We continue to value our relationship with our distribution partners and strive to work together to increase sales of our products. For the first time in many years, this past quarter, we involved them in our promotional programs and saw a significant year-over-year improvement, compared to the same time period, last year.

Strategic pricing is another crucial factor in unlocking our growth potential. We strive to ensure that our products are priced, competitively, in each category and vertical, relative to their respective value propositions.

By utilizing the right analytical tools to maintain our competitiveness, while taking into account the total consumer costs, including shipping to various locations around the country, we believe we can drive growth.

Additionally, we are currently developing programs with our distribution partners to increase market share and overall profitability, something that was not previously considered.

M&A is an important part of our growth strategy, and future acquisitions will be informed by our market segmentation and targeted towards the growth segments of the market where we feel there are gaps in our portfolio.

In addition to expanding our product line, we will also consider potential acquisitions that provide additional capabilities. We believe that these key elements will unlock growth by enabling us to bring the right products to the market with faster adoption.

We have frequently referred to our consumer verticals and have refined our internal view of them. On Slide 10, you can see those consumer verticals.

At Holley, we have been, traditionally, focused on the domestic muscle vertical and have achieved great success in that area. However, this vertical represents one of the smallest parts of the total \$40 billion total addressable market. We have a portfolio of strong brands and products that should be well-positioned in these other consumer verticals, such as modern truck and off-road, euro import, and safety in racing.

As previously mentioned, we are dedicating resources in sales, marketing and product planning to foster growth in each of these. Part of our growth strategy involves positioning our product lines as comprehensive solutions for customers rather than individual pieces and parts within each of those consumer verticals.

The automotive performance aftermarket can be a confusing landscape, and customers seek out experts on their vehicles to find all the key elements of performance.

On Slide 11, you can see two examples of how we are beginning to merchandise our products, transitioning from individual pieces and parts to complete customer solutions.

The example on the left serves the off-road vertical, where we have numerous products under different brands to target the consumers' needs. We put those offerings under the umbrella of Holley Off-Road to provide the platform to market those solutions.

In some verticals, we have brands that span multiple product categories. Under our Dinan brand, which targets BMW enthusiasts, you can get exhaust intakes, tunes, suspensions, and many other components. The example on the right is of our Dinan brand grouping products into performance packages, offering turnkey solutions for our customers.

Given the extensiveness of the Holley portfolio of products and brands like these examples we just talked about, we felt the company's naming needed a slight modification that you can see on Slide 12.

Going forward, we will be conducting business under the name Holley Performance Brands. We believe that this name better represents our identity and the breadth and depth of our market presence, which we believe is unmatched by any other company. Our focus is on growing in all market segments by providing customers with powerful solutions, not just individual parts.

Now I would like to turn the presentation over to Jesse, who will discuss our Q4 and full year 2023 results, as well as our outlook and guidance for 2024.

**Jesse Weaver**

Thank you, Matt, and good morning, everyone. We are pleased with our fourth quarter results, which capped off a year of many accomplishments.

On Slide 14, we've highlighted our fourth quarter results and key financial metrics, which include a second consecutive quarter of year-over-year sales growth and meaningful improvements in both gross margin and adjusted EBITDA margin.

Our team has done a fantastic job boosting sales and margin by cutting costs as we planned early this year and improving operations through our cost-to-serve efforts in the back half.

Gross margin for the quarter was up 800 basis points from 30.7% in the fourth quarter of '22 to 38.7% in '23. After adjusting for the product rationalization in Q4 of '22, gross margin for the quarter improved approximately 500 basis points year-over-year, in '23.

It was primarily driven by a combination of efficiencies coming from freight management, improved production management, and lower fixed costs from facility consolidations outlined at the beginning of the year.

SG&A for the quarter was down \$17.7 million versus the prior year. Approximately \$13 million of the year-over-year improvement is coming from an equity compensation, which was primarily driven by a one-time accelerated grant in Q4 of '22.

The remaining year-over-year improvement was driven by a combination of outbound freight-related efficiency improvements and improved cost management efforts that were outlined, earlier this year.

Improvements in both gross margin and SG&A supported significant year-over-year growth in adjusted EBITDA margin for the quarter, which was up 850 basis points to 18.3% in the fourth quarter of 2023 versus 9.8% in '22.

As shown on Page 15, we maintained our strong adjusted EBITDA performance and generated cash from enhancing our working capital strategy and inventory management. This led to free cash flow for the quarter of \$29.9 million. This is consistent with the robust cash generation we have achieved throughout the year, and it is about a \$31 million improvement compared to the same quarter, last year.

As you can see on Slide 16, our remarkable cash flow has allowed us to keep reducing our leverage. We ended the quarter with a net leverage ratio of 4.21x, which is, meaningfully, below the covenant that is outlined in our amended credit agreement and down from 5.67x at the end of the first quarter. This is also below the original debt covenant of 5x.

As was announced in our December press release, we were pleased to prepay an additional \$25 million in principle against our first lien term loan facility during the quarter, which when combined with the \$25 million prepayment in September of '23, allows Holley to recognize up to an estimated \$2 million in annualized net interest savings.

Now taking a step back and looking at our full year '23 performance on Slide 17, our cost reduction efforts, improved working capital management and significant improvement in past dues helped deliver an incredible year of EBITDA and free cash flow growth.

Profitability significantly improved on both gross margin and adjusted EBITDA margin by 200 basis points and 300 basis points, respectively, which supported meaningful improvements in free cash flow, which was up \$84 million, compared to '22.

Moving to Slide 18. Early last year, we laid out four key financial priorities for the year: restore historical profitability, improve free cash flow, optimize working capital, and delever the

balance sheet. I'm proud to say we've accomplished these goals, which are evident in our full-year results.

As we enter '24, we will continue to focus on increasing total profit, free cash flow, and reducing debt, as our main financial goals.

Now I'd like to cover our Q1 and full year '24 outlook on Slide 19. For the full year 2024, we are projecting net sales in the range of \$640 million to \$680 million and adjusted EBITDA in the range of \$125 million to \$145 million. We expect '24 results to include capital expenditures of \$8 million to \$12 million, depreciation and amortization between \$24 million and \$26 million, and interest expense in the range of \$50 million to \$55 million.

As we remain focused on continued improvements in leverage, we are also providing a year-end net leverage target of between 3.5x to 4x. As a reminder, the significant improvement we achieved in lowering past dues in '23 helped our sales performance in '23. With past-due balances now much closer to normal levels, our revenue guidance includes 2024 headwinds associated with past-due shipments, which were much higher in '23 and not expected to repeat at the same level in '24.

I would also like to note that the midpoint of our 2024 sales and EBITDA range assume the exit of unprofitable business lines and the rationalization of approximately 10,000 nonperforming SKUs, which represent less than 1% of sales. In addition, we continue to drive efficiency in our business and expect to save another \$5 million to \$10 million in '24, above the savings generated in 2023 from improvements in return handling and reduced shipping fees.

These factors make us optimistic about improving the adjusted EBITDA margin, as shown in the full-year guidance.

Specific to the first quarter of this year, we are expecting net sales in the range of \$150 million to \$160 million and adjusted EBITDA in the range of \$27 million to \$33.

Several factors, both internal and external, helped inform our first-quarter and full-year guidance ranges. Notably, our distribution partners experienced lower-than-expected consumer demand in late '23 that led the higher inventory levels at several of our key distribution partners.

Distribution partners elevated inventory levels have had an impact on orders and shipments in January and early February with overall order and shipment trends improving, throughout the quarter.

While these developments will likely impact our Q1 results, we believe that our sales and marketing initiatives, particularly improvements to our product launch effectiveness, will help lead to growth in the second half of the year. For the year, we're currently anticipating first-half

sales to account for 51% to 52% of total sales for the year, with year-over-year adjusted EBITDA margin improvement occurring after Q1.

We expect to see a modest increase in our leverage ratio at the end of the first quarter, which is largely a result of slightly lower covenant-adjusted EBITDA in Q1 of '24, compared to the prior year. As year-over-year top line improves and margins expand throughout the year, leverage is expected to begin declining again starting in Q2 and reached 3.5 to 4x, by year-end.

In the medium term, we are targeting a range of 3x to 3.5x, driven solely by the expected cash generation of the business.

In periods where we are making significant acquisitions, we would expect to finance them with an accretive mix of equity and debt and as a result, post-acquisition leverage, may exceed our targets for a short period of time, but we continue our efforts of making progress towards a 3x leverage target in the long term.

In closing, while we have seen some softness in Q1, we are confident in the resilience of this enthusiast-based industry. Plus, as you heard from Matt today, we are extremely focused on transforming the growth engine in '24, while simultaneously refining our cost to serve. We remain very bullish on the free cash flow generation of this business and are firmly on track to achieve our long-term gross margin and EBITDA margin targets of at least 40% and 20%, respectively.

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

**Ross Collins**

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

**Operator**

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 “\*” key. One moment, please, while we poll for questions.

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

**Brian McNamara**

Hey, good morning, guys, thanks for taking the questions. I guess, firstly, past dues came down \$5 million, sequentially. I think you guys said anticipated \$10 million. Anything worth calling out there?

**Jesse Weaver**

Yeah, Brian, I think when we were giving our guidance before, we were expecting a little softer order growth and more past due improvement. And it kind of came in flip-flop here with the work the team has done to really get—re-engage some demand in the past new, actually. Unfortunately, on the mechanical side, we've got some work we're doing on the inventory improvements that we really need some more time to work through that.

So, that's an area that we see there's more improvement to come, but we weren't able to sufficiently get it through in Q4.

**Brian McNamara**

Great. And then to that point, orders were up nicely, I think up 7% in Q4. And obviously, sales in Q1 are expected to be weak. I know you touched on this, briefly. Can you kind of reconcile the difference between the two and order strength and maybe lower-than-expected out-the-door consumer demand? And what gives you confidence that that improves as the year progresses?

**Jesse Weaver**

Yeah, so on the order strength, I think what we were seeing there is our resellers were coming into the quarter, really the back portion of the quarter, expecting to see much stronger demand on their out-the-door than they actually realized. So it's a little bit of they have to have the inventory in place to fulfill the demand, and it just didn't play out the way they had anticipated. That is kind of bleeding into, obviously Q1.

And we talked about—we haven't typically given a quarterly guide, but given the uncharacteristic nature of how Q1 is coming in, we felt it was important to. And as we've seen the quarter progress here in the back half of February, we really started to see that trend improve pretty meaningfully to just give us confidence that as we get further into the year, Q2 and beyond, particularly in the back half, that the out-the-door trends at our resellers are actually improved and the initiatives that we've got in place to drive product launch effectiveness, the products we've got going on and the promotional strategies that we've got in place will actually really start to take off.

**Brian McNamara**

And if I could just squeeze in one final one on margins. The midpoint of your guidance calls for a nice improvement on margins on flat sales. There's a school of thought out there that most of the benefit of your turnaround efforts are already flowing through the P&L. Anything worth calling out here in terms of maybe what's being underappreciated about the durability of margins in your business?

**Jesse Weaver**

Certainly. That's the biggest driver of that, Brian, is just going to be—we're able to maintain just general margin through pricing on the gross margin line, but we found additional cost savings

efforts producing fruit, particularly on how we're handling our returns and further efficiencies in our freight expense. That's the \$5 million to \$10 million that we called out.

**Operator**

Our next question is from Mike Swartz with Truist Securities. Please proceed with your question. Hello, Mike. Our next question is from Joe Altobello with Raymond James. Please proceed with your question.

**Joe Altobello**

Hey, guys, good morning.

**Matt Stevenson**

Hey, Joe.

**Joe Altobello**

So first question for you, Jesse. If you could quantify for us maybe the amount of excess inventory in the reseller channel right now and how confident are you that this is a 1Q phenomenon and it doesn't bleed into the second quarter?

**Jesse Weaver**

Well, Joe, we don't actually have the direct numbers of their actual inventory excess, but what we do track is where do they stand relative to where they should be on a comparable basis, year-over-year. And when we look at last year, they were really well under-inventoried where they should have been.

And this year, we're saying they're \$10 million to \$15 million above where they should be. So hopefully, that gives you--at the end of Q4, obviously. So hopefully, that gives you what you need.

**Joe Altobello**

No, it does. I appreciate that. And then maybe just on a second topic, M&A. Given the progress you guys have made on the balance sheet, it sounds like you're pivoting a little bit to a more aggressive stance. Could you speak to the pipeline right now in terms of quality of the assets that are for sale and maybe the valuations that you're seeing?

**Matt Stevenson**

Yeah, I'll comment, Joe, relative to kind of the pipeline. I mean, we remain opportunistic with M&A for the right opportunities. In my prepared remarks, I commented that we're really using the market segmentation to inform our direction relative to our targeted categories and verticals that we're going after.

So, I think a little too early to comment on specific multiples we're seeing in that pipeline. But a lot of great work is going on relative to unlocking our long-term growth strategy and making sure we have the right M&A to support that.

**Joe Altobello**

Okay, great. Thank you, guys.

**Operator**

Our next question is from Christian Carlino with JPMorgan. Please proceed with your question.

**Christian Carlino**

Hi, good morning. Thanks for taking our question. First, could you--given the focus on strategic pricing, could you talk about how you're thinking about price realization and unit volume demand in '24?

**Jesse Weaver**

Yeah, I think good question, Christian. I think from a unit volume demand in '24, just given that our current model would estimate we're going to do about 3% to 4% in price with flat sales. I think that kind of gets you there on where the units would go. I think with the efforts that we're putting in place to actually supercharge these launches, one of the things that we have yet to really realize and fully appreciate is the power of launching, effectively.

I think through some of the new product launches that we've got coming and the way that we're going to go to market, we anticipate there's potential upside there to get volume growing at a much faster pace than we've seen, historically, but we're not baking that into the guide because we feel like it's important for us to fully understand it, first.

**Christian Carlino**

Got it. That's helpful. And could you talk about your channel expansion efforts? And is there any way you can quantify this, whether it's number of resellers you've been adding or the lift of sales from the new resellers? Just to help us better understand the work you're doing there and maybe what inning we're in.

**Matt Stevenson**

Yeah, Christian, I'll comment on that, and thanks for the question. So, relative to how we're looking at these verticals, we're taking a much more external than internal look and saying, "Hey, who are the top distribution partners within each of these verticals? And do we have the share and the relationship that we expect given our great brands and our great products?"

So, I'd still say it's early innings, but we know who the leaders are in the segments. We know who we have great relationships with and those that we have relationships are just embarking on. But it's just making sure we're using the market data and the segmentation to drive the directional growth versus just looking inwardly at where we've been, historically in the past.

**Christian Carlino**

Got it. Thankyou very much. Best of luck.

**Matt Stevenson**

Thanks, Christian.

**Operator**

Our next question is from John Lawrence with the Benchmark Company. Please proceed with your question.

**John Lawrence**

Great, thanks, guys. Can you talk a little bit about when you think about the new products that you've--the racing helmet, etc., can you just walk us through sort of a little bit about how that path started, what led you to that product and just sort of that pathway of introducing these new products? And I assume the new engine products that were released in the summer continue to add gains and help the profile.

**Matt Stevenson**

Yeah, good morning, John, thanks for the question. Yeah, I think that is a great example of the collaboration we're driving, internally, between our various business units and consumer verticals. So, for example, we have a gentleman that leads our off-road division, and he's an adamant off-road enthusiast, and he saw a gap relative to helmets in the market.

And then we had our safety division under Simpson, of course, does class-leading helmets. And those two work together with their respective teams to say, "Hey, what is missing in the features and benefits customers are looking for in a helmet? And then how do we best bring that to market?" So, things like that start a lot with the market knowledge our team brings.

And then we have stood up a product phase gate system. Now we validate all the opportunities based on market potential, differentiation in the market, who we're competing with, what distributors we're going to partner with to bring it to market. So, it's a much more sophisticated process than been in the past.

**John Lawrence**

Great, thanks, and just a follow-up. Jesse, what's the cost of maintaining--you're talking about shrinking inventory levels, 10,000 SKUs or whatever. What is the cost savings of reducing that inventory from a holding standpoint, etc.?

**Jesse Weaver**

Yeah, so good question, John. I mean, I think the net sales impact, like we pointed out here, is less than 1%. There is some cost savings as we kind of reduce complexity in the business and

certainly carrying this inventory. I mean, in some cases, John, I mean, we're talking things that turn at well under half a turn a year.

So you can kind of calculate the actual carrying cost from a cost of capital perspective. But then one of the things that we talked about is making investments in the organization and key capabilities, and we recently just executed a reduction in force to reallocate those savings that were associated with complex work that wasn't value-add to help invest in some of these key capabilities. So, we've kind of done all this, holistically, in order to reduce complexity and put the right people in place here.

**John Lawrence**

Great, thanks, good luck.

**Matt Stevenson**

Thanks, John.

**Operator**

Our next question is from Joe Feldman with Telsey Advisory Group. Please proceed with your question.

**Joseph Feldman**

Thank you. Good morning, guys. Question on the late fourth quarter slowdown in demand that your partners that saw, what was driving that? Was that because it was--like was that weather-related issues where it gets too cold to go outside and work on the car, or was there something else at hand? Was it just people weren't buying these products for holiday season, I guess? But maybe you could share a little more color there, if you know anything.

**Matt Stevenson**

So, Joe, we don't get a lot of intel beyond sort of what their actual out-the-door sales were in the quarter. We do get it monthly. What I can say is I think there is a bit more optimism going into Q4, just overall. And the trend didn't kink or anything in out-the-door sales for any of the given months in the quarter. It's just that they were looking for it to be a bit bigger than it turned out to be for them.

**Joe Feldman**

Got it. Got it. And as you said, it started--

**Matt Stevenson**

--So, let me build on that for a second. I would say for us, as we look at our best analog is our internal D2C, which we're not giving that specific number because we don't want to focus on it too much. We actually saw improving trends in the back half of the quarter. So that was actually encouraging, just overall.

**Joe Feldman**

That's very helpful info. Thank you. And then maybe my follow-up, I guess, more for Jesse. I think I heard you right, say--if I heard you correctly, you said first half of the year sales would be 51% to 52%, which I think is consistent with historical. But after lowering the first quarter number, is it fair to say you're putting a pretty solid amount of emphasis on the second quarter now to come through, and it seems like a little bit above trend for the second quarter? So, I just want to make sure I heard that right and maybe you could share a little more color on the thinking on that.

**Jesse Weaver**

No, you're spot on. That is the implication. And we did see out-the-door sales in April of last year were really weak. So we're rolling over a pretty easy comp for our resellers on that. And we've also got some efforts going into Q2 this year as we streamline this promotion and product launch strategy that should really start to help make Q2 a stronger quarter than last year.

**Joe Feldman**

Got it. Okay, that's helpful. Thank you and good luck, guys.

**Matt Stevenson**

Thank you.

**Operator**

Thank you. Our next question is from Philip Blee with William Blair. Please proceed with your question.

**Sabrina**

Hi, this is Sabrina on for Phil. Thanks for taking our question. How has the segment reorganization and new verticals affected your internal team's operations or go-to-market strategies for new products?

**Matt Stevenson**

Yeah, Sabrina, quite substantially. As I mentioned in my prepared remarks, Holley has done really well in kind of the traditional segments of--and verticals of domestic muscle. And meanwhile, the largest segments of the market are actually in that modern truck and off-road, euro and import, and large market in safety and racing.

So internally, we're dedicating sales, marketing, and product planning resources, kind of each of those four major categories to make sure we continue our great success in domestic muscle but, at the same time, we're really unlocking growth in these other three categories. So now there's distinct teams that work together to make sure we're identifying the market opportunities, bringing the right things to market.

And as Jesse touched on, really improving our execution relative to product adoption by really enhancing our product launch strategy and making sure all the elements of product planning, marketing, and sales are connected when we launch those products.

**Sabrina**

That's helpful. Thanks, best of luck.

**Matt Stevenson**

Thanks, Sabrina.

**Operator**

As a reminder, 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. There are no further questions at this time. I would like to hand the call back to Matt for closing comments.

**Matt Stevenson**

All right. Thank you. Now Slide 22 highlights the compelling thesis around Holley. This is an incredibly attractive market, driven by automotive enthusiasts. This is not just a hobby for our customers. It's our passion and it's a lifestyle.

Because it's more than just a hobby or trend, it weathers the economic cycles extremely well. We have a massive addressable market, nearly \$40 billion, that has seen decades of uninterrupted growth. And Holley's the industry powerhouse with a portfolio of iconic brands with a history of innovation. Plus, we have a track record of successful acquisitions and creating value through integrations in unlocking growth.

We have a unique opportunity to create a transformative digital experience that will redefine the way our consumers and distribution partners interact with our brands. This will create a competitive advantage and drive growth.

All this leads to an attractive investment thesis with the business focused on delivering consistent organic growth of at least 6%, 40% gross margins, 20-plus percent EBITDA margin, sustainable free cash flow, and a platform that enables value to be unlocked in strategic acquisitions.

The combination of the attractiveness of our automotive enthusiast marketplace and the great portfolio of Holley brands offers a fantastic investment opportunity.

Before we close, I want to thank all our teammates for everything they do to deliver for our customers, every day, and I want to thank our incredible group of consumer enthusiasts who support our brands, as well as our distribution partners, many of whom have been with us for decades.

And I want to thank you for your time, today, on the call and look forward to continuing to update you on our progress in future quarters. Thank you, and have a great morning.

**Operator**

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