

Holley, Inc.

Third Quarter 2025 Earnings Results Conference Call November 7, 2025

Presenters

Anthony Rozmus, Investor Relations

Matthew Stevenson, President, Chief Executive Officer

Jesse Weaver, CFO & Head of Information Technology

Q&A Participants

Christian Carlino - JPMorgan

Phillip Blee - William Blair

Joe Altobello - Raymond James

Brian McNamara - Canaccord Genuity

Bret Jordan - Jefferies

Joe Feldman - Telsey Advisory Group

Mike Baker - D.A. Davidson

Mike Albanese - The Benchmark Company

Operator

Good morning, ladies and gentlemen, and welcome to the conference call to discuss Holley's third quarter 2025 earnings results.

At this time, all participants are placed in a listen-only mode. Later, we will conduct a question-and-answer session and instructions for asking questions will be provided, at that time. We ask that participants limit themselves to one question and one related follow-up, during the Q&A period.

Please be advised that reproduction of this call, in whole or in part, is not permitted without written authorization of Holley. And as a reminder, this call is being recorded and will be made available for future playback.

I would now like to introduce your host for today's call, Anthony Rozmus with Investor Relations. Please go ahead.

Anthony Rozmus

Good morning, and welcome to Holley's Third Quarter 2025 Earnings Conference Call. On the call with me today are President and Chief Executive Officer, Matthew Stevenson; and Chief Financial Officer, Jesse Weaver.

This webcast and 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 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 third quarter and discuss guidance for the full year 2025. At the conclusion of the prepared remarks, we will open the call up for questions.

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

Matthew Stevenson

Thank you, Anthony, and good morning to everyone joining us live on the call, today. As we look back on the third quarter of 2025, I'm pleased to share that the positive momentum we have been building for more than two years continues to gain strength. This quarter marks another clear step forward in our transformation journey, a reflection of disciplined execution, sharp focus and a resilient team that keeps delivering results in a constantly changing consumer and macroeconomic environment.

For the third consecutive quarter, our core business delivered strong growth. Just as a quick reminder, when I say core business, I'm referring to our results, excluding the operations we divested and the product lines we phased out as part of last year's strategic rationalization.

This quarter, we made meaningful progress across the company with core growth in every division. It's especially encouraging to see continued momentum in both our direct-to-consumer and business-to-business channels, reinforcing the strength and balance of our omnichannel strategy.

As we've said before, our omnichannel approach remains central to our core strategy as the leading consumer enthusiast platform in the automotive performance aftermarket. We're committed to serving customers wherever they choose to engage, whether that's through e-tailers, distributors, wholesalers, third-party marketplaces, installers, national retailers or our own e-commerce platform.

The foundation we've built through our strategic framework continues to deliver, from product innovation and digital capability to operational excellence and commercial capabilities. With these fundamentals in place, our focus remains on sustaining momentum and executing against our 3-year plan.

We're also staying proactive in managing external factors like tariffs and supply chain costs. While these remain dynamic, our diversified sourcing strategies and pricing discipline have positioned us, well, to manage impacts and protect margins.

Overall, it was an excellent quarter, one that reflects the hard work, focus and determination driving our organization forward. I couldn't be prouder of our team and the meaningful progress we continue to make, together.

Now let's turn to Slide 5. I'll walk you through a few of this quarter's standout highlights. We delivered strong results this quarter, achieving 6.4% growth in our core business. This performance reflects genuine volume-driven expansion, which continues to build momentum, quarter-over-quarter.

Year-to-date, our 5% core growth is composed of a 4% increase in volume and a modest 1% pricing tailwind. This performance showcases the strength of our business model designed to drive consistent growth and the deep commitment of our enthusiast consumer base for whom this is more than a hobby; it's a passion and it's a way of life.

Importantly, our growth was broad-based across all channels, divisions and within 17 brands. That breadth speaks to the success of our transformation initiatives across the company and the strong execution behind our go-to-market strategy.

In our B2B channel, we saw a 7.3% growth as we deepen engagement with key partners. Through strong joint planning, continued data integration and expanded sales enablement tools, we've enhanced collaboration and delivered more value to our channel partners. It's a great example of how our customer-first approach is driving strong relationships and measurable performance gains across the business.

Our strategic initiatives also contributed meaningfully this quarter, generating about \$26 million of revenue. Roughly \$11.3 million came from new product innovation and portfolio management, including strategic pricing and channel margin optimization. These results underscore how well our commercial and operational teams are working together to drive sustainable, profitable growth.

Even in what's typically our slowest quarter of the year, we generated \$5.5 million of free cash flow, a \$7.6 million improvement from last year. That improvement came from higher margin and disciplined capital management, across the organization.

We ended the quarter with net debt-to-EBITDA leverage at 3.9x, ahead of our year-end target of 4x. Now this is the first time we've been below 4x leverage since 2022, a clear marker in our transformation and a reflection of our stronger financial position.

And after the quarter ended, we prepaid another \$10 million in debt, bringing total prepayments to \$100 million since, September 2023. That's an important milestone for us and reinforces our commitment to strengthening the balance sheet, positioning us for continued long-term value creation.

Let's move over to Slide 6 and take a look at some of the key quantitative highlights from the quarter.

Net sales for Q3 was \$138.4 million, which translated to core business growth of 6.4%. That marks our third consecutive quarter of year-over-year growth in the core business, and it underscores our outperformance in the market and the share gains we are seeing in key categories across the company.

Gross margins came in at 43.2%, up more than 400 basis points from last year. That improvement reflects strong pricing discipline and operational improvements across the company, while keeping our focus on quality and serving the customer.

Adjusted EBITDA margin rose to 19.6%, an increase of over 300 basis, points year-over-year. This strong performance highlights the operating leverage within the business and the benefits of maintaining cost discipline and execution focus, resulting in a significant \$7.6 million improvement in free cash flow, compared to the same quarter last year.

On the right-hand side of the slide, you can see a few additional business highlights. Product innovation continues to be central to our philosophy, and this past quarter delivered a range of successful launches across our divisions, including digital dashes from our Holley EFI product suite, Big Claw heavy-duty brake kits from Baer, at-home BMW performance tuning solutions from Dinan and Club Sport racing seats from Simpson. We'll see the impact of these and many other recent product introductions when we review our strategic initiatives tracker in the upcoming slides.

Operationally, we also continue to move the needle. In-stock rates for our top 2,500 products improved 2.2% year-over-year, giving customers better access to what they need. Efficiency was up more than \$3 million and past due orders were down 20.7%. Those are strong signs of progress and a testament to the impactful additions we made to our operational leadership team across supply chain, manufacturing and quality.

On the consumer side, we continue to see strong engagement from our enthusiast base. Direct-to-consumer sales were up 4.2% year-over-year, supported by a sharper promotional execution and stronger digital performance.

The third quarter also represents the peak of our event season and this year, engagement across our enthusiast community was strong. Attendance at our events was on track to break records, but a rainy weekend during our flagship LS Fest East did impact that momentum, leaving overall attendance roughly flat for our event season this year. Even so, the impact of these events extends well beyond in-person attendance.

A key part of our event strategy is leveraging these experiences to grow and engage our digital audience. With more than 8 million followers growing steadily this quarter at 2% year-over-year, our brands continue to reach and inspire enthusiasts across platforms, keeping our community energized during marquee weekends like LS Fest.

On Slide 7, we can see some standout examples of the core business growth driving our performance across divisions in Q3.

Our Domestic Muscle division roared ahead with 6.2% year-over-year growth, powered by an unwavering enthusiast passion for our legendary brands. Multiple brands delivered standout high-single and double-digit gains across categories, reinforcing the vitality of this portfolio.

The Modern Truck and Off-Road division accelerated with 5.2% growth, led by exceptional performance from Baer, Flowmaster and Range, each posting double-digit gains. DiabloSport also delivered robust high single-digit growth, further strengthening the division's overall performance.

Meanwhile, our Euro & Import division continued its impressive trajectory, climbing 16.6%. Dinan and APR sustained remarkable growth throughout the year, driving strong segment performance.

We've also shifted AEM to our Domestic Muscle portfolio, better aligning its fuel delivery and monitoring focus with that vertical. Going forward, the Euro & Import division will include only Dinan and APR, sharpening focus and alignment.

In our Safety division, distributors began ramping up ahead of the Snell 2025 certification changeover, which officially began on October 1. Simpson Motorsport, Motorcycle and Stilo all posted solid gains, signaling renewed momentum across the category. This acceleration follows the typical precertification cycle slowdown earlier in the year, and it positions the division for continued strength through the balance of 2025 and beyond. Together, these results highlight broad-based growth across our divisions, setting the stage for continued progress.

Let's move next to our strategic initiative tracker to see how these efforts are fueling our long-term growth. But before that, just a quick reminder on Slide 8, where we revisit the eight areas forming the foundation of our strategic framework, centered around three core principles.

First, fueling our teammates, making Holley great place to work, where team members are empowered, see clear paths for growth and thrive in an engaging and inclusive culture.

Second, supercharging our customer relationships, delivering the premier consumer journey in our industry, strengthening B2B partnerships through shared growth and leading with innovation that defines performance excellence.

And finally, accelerating profitable growth, expanding into new markets, pursuing transformational M&A and driving continuous operational improvement to enable reinvestment and long-term value creation.

Together, these principles continue to guide our strategic initiatives and keep our teams aligned around Holley's long-term vision.

Now on Slide 9, I'm pleased to share our third quarter highlights as captured in the updated strategic initiative tracker. Under our Trailblazer and trusted partner pillar focused on B2B growth, we delivered another strong quarter. Enhanced product data adoption at key retailers drove \$1.7 million in new sales, bringing year-to-date gains to \$83 million.

Our smaller account segment also remained strong, growing \$2.4 million year-over-year in Q3. The largest driver of growth in the quarter was continued share gains with our largest e-tailer and wholesale partners. Altogether, B2B initiatives generated \$13.5 million in revenue, this quarter.

Turning to our premier consumer journey pillar. E-commerce and direct-to-consumer channels continue to perform well. Third-party marketplaces grew 28% year-to-date to \$12.9 million, with our new Amazon program driving over 50% growth in the chemical product sales.

Enthusiast events also fueled record merchandise sales, and overall e-commerce sales were up 5% year-to-date. In total, this pillar contributed nearly \$2 million year-over-year.

New product launches across divisions, paired with continuous sales strength in tuning and exhaust for their new innovations delivered \$2.5 million in year-over-year growth and set the stage for strong momentum heading into Q4.

Within portfolio management, strategic pricing actions and distributor margin enhancements contributed an additional \$7.7 million in sales during the quarter. Combined, this pillar contributed approximately \$11.3 million in revenue during Q3.

Our global expansion in new markets pillar also continues to gain traction. Mexico shipments reached 240,000 in September, our second straight month above 200,000, tracking toward a \$2.5 million annual run rate.

Powersports delivered record revenue of nearly \$300,000 in September and \$1.1 million year-to-date, keeping pace with a \$1.8 million target. Together, these efforts generated \$1.1 million in revenue for Q3.

Under our Fund the Growth pillar, cost and efficiency initiatives yielded \$6.2 million in total savings this quarter. In-stock rates for our top 2,500 products are near our 93% goal with significant reductions in past dues with decreased overall inventory levels.

Finally, our Great Place to Work initiatives continue to build engagement and productivity. Employee engagement rose 4%, and we remain on track to achieve our revenue per employee goals, by year-end.

Altogether, execution of our strategic framework delivered about \$27.8 million in revenue from key initiatives and \$6.2 million in cost savings this quarter, clear proof of focus, discipline and consistent execution. Holley's third quarter showcased strong broad-based growth, margin expansion and disciplined execution across our business.

We've strengthened our financial position, bringing net debt-to-EBITDA leverage below 4x for the first time since 2022, a major milestone in our transformation journey. These results reflect the hard work and focus of our team and position us, well, for continued momentum.

With that, I'll turn it over to Jesse to walk through the financial highlights and refined guidance for the remainder of the year. After Jesse's remarks, we'll return for Q&A. Jesse.

Jesse Weaver

Thank you, Matt, and good morning, everyone. I'd like to start by providing an update on our progress against our financial priorities, then discuss our third quarter '25 financial results, before discussing our guidance updates.

Moving to Slide 11. Turning to our financial priorities, our focus remains on strengthening the fundamentals of the business by restoring historical profitability and optimizing working capital.

We built on our progress with operating efficiency by generating \$3.2 million in incremental savings during the quarter, achieved through ongoing improvements in logistics and the recovery process. These efforts have already pushed total '25 savings to \$5 million with additional initiatives still underway.

As of the end of the quarter, we remain within our target range and expect further savings through year-end, as the team continues to execute on previously outlined initiatives, moving steadily toward the midpoint of our annual goal.

Turning to working capital, I'd like to take some time to discuss our inventory performance in the third quarter. Year-to-date, inventory reduction moderated from \$9 million in Q2 to \$5 million in Q3. This shift reflects operating decisions made during the quarter aimed at enhancing long-term visibility, control and operational efficiency, specifically around the consignment inventory and bonded warehouse.

While these actions temporarily increased inventory on hand, they are foundational to our improvements in operations and delivering on our commitments to our customers. While these operational changes mean we are not currently on pace to reach the low end of the \$10 million reduction target for the full year of '25, they are setting the stage for sustainable improvements in working capital management.

We remain focused on refining our SIOP process to improve planning and forecasting, optimizing safety stock levels, all of which are expected to drive further gains in '26, as these initiatives mature.

And on Slide 12, we'll walk through our key financial metrics for the third quarter. Net sales for the third quarter grew 3.2% to \$138.4 million versus \$134 million in the same period a year ago. It's important to note that this is the first time we achieved net sales growth on a GAAP reported basis in two years. On a core business basis, we achieved net sales growth of 6.4%, which is the third quarter in a row of core business growth. The increase was primarily related to a combination of improved pricing realization of \$4.6 million and volume mix increase of 3.7.

Core business growth, once again, came across all divisions as well, as both channels, and continues to be the result of our commercial transformation efforts with B2B and D2C.

Gross profit was \$59.8 million in the quarter, a growth of 14.4%, compared to \$52.3 million in the same period last year. Gross margin for the quarter was 43.2%, an increase of 422 basis points versus 39% in the prior year. This improvement was through a combination of pricing flow-through as well as operational initiatives highlighted earlier in the presentation across facilities efficiencies, reduced excess inventory write-downs and improvements in quality through reduced warranty claims.

SG&A, including R&D expense for the third quarter, was \$38.2 million versus \$34.7 million in the same period for the prior year. Primary drivers in SG&A are related to lapping reduced payroll expense in '24 from the furlough activity, reduced '24 incentive comp accrual and increased investments in '25 related stocks and tariff mitigation support.

Net loss for the third quarter was negative \$800,000, a \$5.5 million improvement versus a net loss of \$6.3 million in the third quarter of '24. Adjusted net income in the third quarter was \$3.3 million, a \$3.8 million improvement versus an adjusted net loss of \$500,000 in the same period of last year.

Adjusted EBITDA for the third quarter was \$27.1 million versus \$22.1 million in the prior year and driven by a combination of higher sales and improved gross margin. Adjusted EBITDA margin was 19.6%, a 309 basis point improvement versus 16.5% in the third quarter of 2024.

On Slide 13, the third quarter was another strong quarter of free cash flow generation of \$5.5 million, compared to negative \$2.1 million in free cash flow for the same quarter a year ago. This performance was driven by improved EBITDA, slightly offset by working capital investments, as previously noted in the presentation. And year-to-date, we have generated \$30.3 million in free cash flow.

On Slide 14, we reduced our covenant net leverage at the end of the third quarter to 3.9x versus 4.2x a quarter ago. In the third quarter, we prepaid an additional \$15 million of debt,

which helped drive our leverage down under 4x target we set for the end of '25. This marks the first time we are under 4x leverage in 12 quarters. In addition, at the end of October, we prepaid another \$10 million of debt. And since September of '23, we have prepaid \$100 million of debt, exercising our commitment to strengthening our balance sheet and enhancing our financial flexibility.

And just as a reminder, our leverage remains well under the 5x covenant that is only in place when the revolver is drawn at the end of the quarter. There is no outstanding balance on our revolver, and we concluded the quarter with \$51 million in cash with no expectation of drawing on the revolver in the near-term.

As we look ahead to guidance on Slide 15, we've been closely monitoring the broader economic environment, throughout the year. Conditions remain fluid as tariff developments continue to evolve and consumer trends adjust. While factors such as higher unemployment, persistent inflation and tariff uncertainty have influenced sentiment, as reflected in the University of Michigan Consumer Index, U.S. households continue to navigate these challenges with measured caution.

But even within this complex backdrop, Holley continues to deliver strong results. Our disciplined execution, focus on operational excellence and commitment to strategic priorities have driven growth that exceeded expectations through the first nine months of '25. This performance highlights the resilience of our business model and our ability to perform in a dynamic environment.

Given our results year-to-date and momentum we've built across our core operations, we are raising our full year guidance for revenue in the bottom end of our range on adjusted EBITDA. This update reflects both our confidence in the team's ability to execute and our disciplined approach to navigating an evolving macro environment.

For '25 revenue, we now expect a range of \$590 million to \$605 million, which implies 3.8% growth at the midpoint over the core business base of roughly \$575 million in '24. Additionally, for adjusted EBITDA, we now expect a range of \$120 million to \$127 million as we raised the bottom end of our guidance from \$116 million.

We look forward to closing the year on a strong note and roll this momentum into 2026. We remain focused on strengthening our balance sheet, enhancing free cash flow generation and maintaining disciplined capital allocation to position ourselves for long-term growth for years to come.

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

Operator

Thank you. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. As a reminder, we ask that you each keep to one question and one related follow-up.

Our first question comes from the line of Christian Carlino with JPMorgan. Please proceed with your question.

Christian Carlino

Hi, good morning, thanks for taking our question. You had talked about taking high single-digit pricing, but price realization was only around 3% in the quarter. So could you talk about why that delta exists? What was same SKU inflation? And then is it simply a function of channel mix and more B2B sales versus D2C, or is there some trade down or favoring smaller projects over larger ones?

Jesse Weaver

Yeah, good question, Christian. I think it's -- from what we can tell, it's a combination of those things. Obviously, continued strong growth on B2B as it relates to the ASP, you're going to have a bit of a lower price realization on a comparable basis, as well as we've got several of our customers who, from a contractual perspective, the pricing doesn't flow through immediately, it comes in later periods.

And then there's just as it relates to some of the contractual prices on some of the other items that we do for our existing distribution partners that are not playing in there, but it really is a combination of them. As it relates to some of the trade down piece, Christian, we're not necessarily seeing that as much. It's just the other items.

Christian Carlino

Got it. That's helpful. And you're not tracking to above your gross margin and EBITDA margin targets for the year. So how should we think about the structural margin profile of the business? I guess, two parts there. One, is there anything unsustainable in the base, right now? And then the flip side is that you've achieved this despite a subdued sales environment. So as sales growth returns to more normalized levels, is there room to expand margins further, or will you generally look to reinvest upside back into the business?

Jesse Weaver

On the first question, no structural change. I think, obviously, the pricing is certainly helping here and particularly at the lower volumes. But to your second question, yes, I mean, I think Matt and I continue to hold to -- while we're two years into the transformation, there's still things to be looked at as it relates to driving growth, particularly operations. And so, we don't want to overcommit here in terms of just all of the growth flowing through. But obviously, we do keep an eye towards just driving continued margin acceleration, and our commitment is

above 20, but I wouldn't expect it to all flow through until we get to a much cleaner glide path, particularly on operations.

Christian Carlino

Got it. Thank you very much.

Jesse Weaver

Sure.

Operator

Thank you. Our next question comes from the line of Phillip Blee with William Blair. Please proceed with your question.

Phillip Blee

Good morning, Matt, Jesse, appreciate the question. The midpoint of your guidance implies a fairly big step down in organic sales growth in the fourth quarter it seems. So is that more just a function of conservatism in the current environment or is that driven by something more specific that you've seen quarter-to-date that warrants a bit more caution here?

Jesse Weaver

Good question, Phillip. And it's a combination of the conservatism, like the current environment is a bit murky, and I think we're all reading the news, every day. And so, Matt and I are really big on making sure that we don't overpromise on this. Plus, this time last year, we're lapping a marketing calendar event that we decided not to reengage in this year just from a margin profile perspective. So that's impacting the top line a bit. So those two things, combined, really account for the majority of it.

Phillip Blee

Okay, great. And then given what you know about who your average customer is, how do you think about the potential benefits from the One Big Beautiful Bill between no tax on tips and overtime and the potential for a bigger tax refund season next year? Do you think that that could have maybe a more meaningful impact on your business and underlying demand?

Matthew Stevenson

Hello, Phillip, it's Matt. What I think the current environment shows our consumers are resilient, right? This is not just a hobby for them, it's a lifestyle. And as we've seen in the past, when there's times they get more discretionary income or tax refunds, that does generate increases in demand. So we'll see how that plays out over the next six months or so.

Phillip Blee

Excellent, very helpful. Best of luck. Thank you, guys.

Matthew Stevenson

Alright, thanks, Phillip.

Operator

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

Joe Altobello

Thanks. Hey, guys, good morning. I guess, Matt, first question for you. You've talked about a lot of the changes at Holley over the last 2-plus years here, certainly making a lot of progress. As we start to think about 2026, where are your priorities for next year?

Matthew Stevenson

Hey, Joe, good morning. I think if you reflect back on our strategic initiatives that we showcased each quarter on the progress there, that is part of our 3-year plan, and that's what we had the teams focused on. So there's a number of key growth areas there. Also, we still think it's pretty early relative to the operational roadmap we have for continued improvements there. So, between those strategic initiatives around growth as well as operational improvements, that's where the team is focused. And again, still early innings in a number of areas that we continue to see opportunity.

Joe Altobello

Got it. Okay. Maybe a follow-up for Jesse. You mentioned inventories were a little heavier, at least than I was looking for. Can you sort of explain a little bit better what drove that?

Jesse Weaver

Yeah, Joe. So in the quarter, there are a couple of things. One, operationally, we felt like there was a much stronger case for us to actually service our customers better by taking some product that we've been selling on consignment and bringing it into our system. It brings a lot more visibility into where the product is, how much of it we have on hand so we can make products and deliver on time to our customers. So that was about a \$2 million to \$3 million headwind in and of itself.

And then in addition, we also decided to get out of the bonded warehouse, which was a strategy that was used to help mitigate tariffs in the beginning. It worked for that purpose. But as tariffs came down, it also was causing operational challenges.

So as we started to bring in those products out of the bonded warehouse or directly from port and the port, in particular, became less congested, you see a lot of inventory that came in, in Q3 that more than likely would have shown up in Q2. So it felt like a big change in Q3, but it's just more of some of the things that should have come in, in Q2 as well.

Joe Altobello

Got it. Okay, thank you.

Matthew Stevenson

Thanks, Joe.

Operator

Thank you. Our next question comes from the line of Brian McNamara with Canaccord Genuity. Please proceed with your question.

Brian McNamara

Hey, good morning, guys, thanks for taking the questions. Congrats on the strong results, I might add. So I'm curious, you guys did a 3.3 in Q1, 3.9 in Q2, a 6.4 in Q3, markedly getting better each quarter. Matt, I think like about a year ago, you kind of called your shot and you said we're going to return to growth in Q1. So kudos on that. I'm just curious how this year has played out relative to your expectations, internally?

Matthew Stevenson

Yeah, Brian, good morning and thanks for the question. I think, Brian, when we look at -- when we set out at the end of last year, our plan for '25, I'd say the team is doing a great job executing. We have -- as we just talked about with Joe, our strategic initiative tracker. That's what the team is locked in on every day and continue to deliver on the critical few initiatives that are underneath that to either drive growth or operational improvement. So, I would generally say it's as planned.

Brian McNamara

And then with all the work you guys have done behind the scenes, do you think you have all the building blocks in place for this growth to be what I would, dare I call, sustainable from here on out, obviously, acknowledging that from quarter-to-quarter, there'll be unique challenges.

Matthew Stevenson

Yeah, I mean, we spent a lot of time on foundational elements, whether it was on our direct-to-consumer business, continuing to enhance relationships with our distributors. And these are the foundational building blocks for the long term. Brian, as you know, we just -- currently, SEMA is going on right now, and I had the opportunity to meet with a number of our great distribution partners and the journey we've been on within the last two years and the enhanced collaboration and the ways we're finding to grow together. And so again, all foundational elements that are there for the long term.

Brian McNamara

And just last quick one, on SEMA, actually. It feels like you guys have refined your strategy with that event each year since you've been there, Matt. I'm curious how does SEMA today compare to maybe your first go at it in 2023 and obviously, acknowledging there was a high energy there last year, given the election results.

Matthew Stevenson

Yes. I'd say the energy, this year, Brian, was -- it felt even greater. I mean, our booth was just absolutely packed. Customer meetings were tremendous. And to your point, like how we've progressed, this is my third SEMA with the company. I would say we continue to execute a plan at the event.

From last year, really focusing on our key four verticals and somewhat eye-opening to the market the amount of fantastic brands and products we have in our portfolio and showcasing them within our four verticals and then just continue to expand that execution, that strategy, engaging with major customers, having set meetings and times to connect and winning product awards and really showcasing the great innovations we have. The team does a great job really refining our strategy and taking that time to engage with customers to drive business.

Operator

Thank you. As a reminder, if you would like to ask a question, please press “*”, “1” on your telephone keypad. Our next question comes from the line of Bret Jordan with Jefferies. Please proceed with your question.

Bret Jordan

Hey, good morning, guys.

Matthew Stevenson

Good morning, Bret.

Bret Jordan

Could you talk about the B2B and sort of what the white space you see there? I mean I think you talked about sort of doing more with some of the big parts retailers, traditional mechanical guys, but sort of good growth there, how do you see the run rate?

Matthew Stevenson

Yeah, Bret, on a strategic initiative tracker, we call out a number of things there. We think there's still a lot of runway in our existing relationships, of course, with whether it's e-tailers, wholesale distributors. But some of the areas you referenced, national retailers is something we're continuing to engage in, strongly. We feel that that channel is accretive in our omnichannel strategy that in-store impulse purchase being able to provide enthusiast products that they want, being able to just go in and pick up something from one of our brands.

We also see continued opportunity in export markets, and you see some of the expansion that we're doing in Mexico and other areas. And we continue to work with OEMs on programs for their aftermarket, not OE production, but their aftermarket performance teams and providing them solutions for enthusiasts. So there are a number of ways we're continuing to drive the B2B growth for the long term.

Bret Jordan

And I guess, you called out -- I think in the past, you've talked about the events generally being self-funding but you mentioned that LS Fest East was probably lower traffic. Were the events in the third quarter generally neutral to earnings or was there a headwind in the period?

Matthew Stevenson

No, no, Bret. They're positive. I think just we get a lot of questions always on attendance and how they're trending, right? And as I mentioned on the prepared remarks, the engagement was great this year but of course, there's always weather at our largest event; that can impact things. And when you have 40,000-plus people when you get a rainy Friday afternoon and a rainy Friday or Saturday morning, it affects things. But no, the profitability was in line as expected.

Bret Jordan

Great, thank you.

Matthew Stevenson

Thanks, Bret.

Operator

Thank you. Our next question comes from the line of Joe Feldman with Telsey Advisory Group. Please proceed with your question.

Joe Feldman

Yeah, hey, guys, good morning and thanks for taking the questions. I wanted to ask, go back to the guidance, I think somebody had asked this as well, but something similar. What would happen for you guys, or have to happen to get to the high-end of the guide versus the low-end? Like is there a subtle difference or is it you would really need a couple of things to really go right to get to the high-end versus the low-end?

Jesse Weaver

Yeah, I mean, I think, Joe, to get to the high end, we're coming up on our holidays event and just having a really strong merchandising calendar and participation by our B2B partners with great sellout would really allow us to get to the high-end. I think on the other end, it's obviously that not hitting in conjunction with distribution partners potentially getting even more conservative on what their forecast is for the coming year because that does impact their in stocks that they hold. So there could be some destocking there in that low-end scenario.

Joe Feldman

Got it. Okay. That's helpful. Thank you. And then I wanted to follow up. I think you guys -- you mentioned working with the B2B and having better sharing of data, and I think data product adoption is how you framed it in the prepared remarks. Can you just share any more color there as what's going on with that, how that's been accepted and what -- how the B2B partners

are actually using that data? And it seems like it's working to help, but I'm just curious just to get a little more understanding of it.

Matthew Stevenson

Yeah, Joe, it's Matt. Happy to answer that. This has been a company-wide initiative for well over a year now. And when we say data, it's product data. So of course, in today's e-commerce world, whether it's going direct to consumer or one of our wholesale partners is selling it to an installer, what have you, it's about the product information they're able to display on -- through their merchandising efforts online. And so, that is a very robust set of information that is required. It's photos, it's videos. Of course, it's dimensions in and out of the box, it's features advantage benefits, it's comparisons, compatible with this replaces that kind of thing.

And it was something that previously, there wasn't an approach in place to be really proactive on offering the best-in-class product data. And I'd say that our teams have done a tremendous job increasing the quality of our data. We grade the data of every category, of every brand, and we continuously improve that weekly, as the product teams continue to enhance the information. So ultimately, it makes the job of our B2B customers easier to merchandise the products to their customers.

Joe Feldman

Got it. That's really helpful. Thanks for clarifying that and good luck with this fourth quarter. Thanks, guys.

Matthew Stevenson

Alright, thanks, Joe.

Operator

Thank you. Our next question comes from the line of Mike Baker with D.A. Davidson. Please proceed with your question.

Mike Baker

Hi, thanks. Can I ask about just the overall spending environment in the consumer? It sounds like there's great energy at SEMA. So you took share, clearly. Any idea or any metrics on the overall market? Is your growth just share gains or have you started to see any kind of recovery in spending in the consumer and all that kind of stuff? Thanks.

Jesse Weaver

It's a great question, Michael. I think as it relates to just the general industry, it's a very difficult industry to get real-time information on. But in our discussions with distribution partners, I feel like out-the-door sales have been pretty strong throughout the year, obviously, on our products, but just consistently across their broader portfolio, they've seen a much better result for this year than they had expected coming into the year. But obviously, we've continued to take share and I think right now, in our guidance, we're assuming these trends continue.

Mike Baker

So, to that point, and that's my follow-up, when you say the trends continue, are you referring to your share gains or industry trends? And I guess what I'm getting at is for a lot of consumer type of names, we saw really strong sales results through July and August and then something seems to have changed in terms of spending September, October and even into November, for a lot of different macro government reasons. So I'm wondering if you can comment on that and any trend that you're seeing throughout the quarter and early into this year, or this quarter?

Matthew Stevenson

Yes, Mike, it's Matt. Generally speaking, how our industry has played out this year, the first quarter was pretty soft. And then the overall industry started to pick up through the balance of the year. And I think to Jesse's point, through that whole period, we've been taking share.

Now I just sat down with no less than a dozen of our key partners over two days. And generally speaking, they're seeing the out-the-door trends be very consistent in demand. And so, there are no indications coming from our key partners or, of course, from ourselves that anything has really changed at this point and to which it does in the future, who knows.

Mike Baker

Perfect. Very encouraging and helpful. Thank you.

Matthew Stevenson

Alright, thanks, Mike.

Operator

Thank you. Our final question this morning comes from the line of Mike Albanese with The Benchmark Company. Please proceed with your question.

Mike Albanese

Yeah, hey, good morning, guys. Nice quarter and thanks for taking my question here. When I look at, I guess, what you've taken for price, where your volumes are and your ability to expand margins, it really seems like you've done a nice job at mitigating tariffs and managing supply chain. And I'm just wondering if you could provide some color on what you're seeing across the competitive landscape.

And I know it's tough -- Jesse, you mentioned it's tough to get kind of incremental data. And we're talking about a lot of different brands and SKUs here, but I'm wondering essentially how much of the share gain is a result of the kind of current macro dynamics from, I guess, a cost standpoint and whether or not, really, your competitive positioning has improved as a result of that?

Matthew Stevenson

Yeah, Mike, I think you're meaning competitive position relative to pricing?

Mike Albanese

Correct.

Matthew Stevenson

Yeah, really, it's a category by category. There's no broad-based statement that covers it. Our job is to ensure we remain competitive, not only in our value proposition for the consumer, but to also make sure our distributors have healthy margins to be able to market and merchandise our products. But generally speaking, our share gains are -- whether you say outthrusting, outperforming, increasing our capabilities, all the above throughout the year on both our D2C and B2B.

And as I mentioned, some of the things, whether it's our product data or enhancing our relationships and the way we work with our key partners, those all have been big contributors to our share gains.

Mike Albanese

Okay, thanks, guys.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Stevenson for any final comments.

Matthew Stevenson

Okay. Thank you, Melissa. Slide 17 underscores the compelling investment story behind Holley Performance brands. This market, fueled by automotive enthusiasts, goes far beyond a past time. It's a passion and it's a lifestyle for our customers. With an addressable market in the U.S. approaching \$40 billion, Holley stands at the forefront, backed by a portfolio of iconic brands with a rich legacy of innovation.

As we wrap up on today's discussion, I'd like to reflect on what this quarter signifies for Holley. The third quarter showcased broad-based strength across our operations with solid growth in every division and sustained momentum in both B2B and direct-to-consumer channels.

Our disciplined execution, operational enhancements and commitment to innovation continue to deliver tangible results, from margin expansion and efficiency gains to deeper engagement with our enthusiast community.

We also achieved a key financial milestone this quarter, reducing net leverage below 4x for the first time since 2022 and generating positive free cash flow during what is typically a slower seasonal period.

These achievements highlight the impact of our transformation and the dedication of our teams to building a stronger and more resilient Holley. Through our strategic framework, we remain

focused on initiatives that matter most, advancing digital capabilities, driving product innovation, strengthening partnerships and laying the foundation for sustainable, profitable growth.

Looking ahead, our outlook remains consistent. We are committed to delivering steady organic top line growth, maintaining gross margins above 40% and achieving adjusted EBITDA margins of 20%.

Our goal is to generate sustainable free cash flow and continue creating value through strategic acquisitions that complement our portfolio. The combination of a vibrant automotive enthusiast marketplace and Holley's legendary brand family positions us as a unique investment opportunity in a passionate segment.

In closing, I want to express my gratitude to our team members for their dedication and execution, to our consumers for their unwavering passion for performance and to our distribution partners, many of whom have stood with us for decades. Together, we're building a stronger, more innovative Holley for the future.

I want to thank you for your attendance on our call today and wish you all a great morning. Thank you.

Operator

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