Holley, Inc.
Second Quarter 2026 Earnings Results Conference Call
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Presenters
Anthony Rozmus, Investor Relations
Matthew Stevenson, President, Chief Executive Officer
Jesse Weaver, Chief Financial Officer

Q&A Participants
Olivia Witte - William Blair
Mitch Ingles - Raymond James
Brian McNamara - Canaccord Genuity
Michael Baker - D.A. Davidson
Joe Feldman - Telsey Advisory Group

Operator
Good morning, ladies and gentlemen, and welcome to the conference call to discuss Holley's second quarter 2026 earnings results.

At this time, all participants are in 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 second quarter 2026 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 the presentation materials, including non-GAAP reconciliation, are available on our Investor Relations website.

Our discussion, today, includes forward-looking statements that are based off 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'll review our financial results for the second quarter 2026. At the conclusion of the prepared remarks, we'll open up the line 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, today. Before we get into our second quarter results, I'd like to build on the context we provided, last quarter. As we discussed on our previous call, the first quarter was impacted by two temporary headwinds, elevated distributor inventories and a slower start to the spring selling season due to unfavorable weather. We also noted at the time that those headwinds were already beginning to wane, evidenced by a strong year-over-year growth in April, and that we expected the general momentum to carry through the rest of the quarter.

I'm pleased to say that's what happened, and it carried throughout the second quarter as well, resulting in a return to net sales growth. In fact, three of our four divisions delivered double-digit core sales growth, year-over-year. That's a meaningful acceleration from where we began the year and reflects both the underlying strength and breadth of our portfolio, as well as the disciplined execution of our strategic priorities.

We also made significant progress on our portfolio rebalancing initiative during the quarter, completing the divestiture of our non-core restoration brands.

While the transaction resulted in a GAAP net loss for the quarter, it further simplifies our operation and allows us to focus our resources and capital on the areas of the business with the greatest long-term growth potential.

Excluding this one-time impact, the underlying profitability of the business improved substantially, with adjusted net income up year-over-year. At the same time, we generated strong free cash flow, reduced leverage to its lowest level in four years, and returned capital to shareholders through share repurchases. We believe this combination of returning to growth, improving profitability, strengthening our balance sheet and executing our strategic initiatives positions us well, as we move forward into the second half of the year.

With that, let's turn to Slide 5 to review the key highlights from the quarter, as well as important developments that occurred after quarter end.

Net sales increased 3.2% to $172 million. Core business net sales, which excludes the impact of our portfolio rebalancing initiatives and divestitures, grew 4.9%, with three of our four divisions delivering double-digit core growth. We also saw core growth across 27 brands in both our direct-to-consumer and B2B channels, highlighting the strength and breadth of the portfolio.

We generated strong free cash flow during the quarter and remain on track to end the year with leverage below 3.5x. Our strategic initiatives contributed $13.4 million in revenue, while delivering $8.3 million in cost savings through purchasing, tariffs, and operational improvements.

We also completed a transformation of our marketing organization over the past 120 days. We significantly reduced our reliance on outside agencies, hired more than 20 marketing professionals, and embedded those resources directly within our operating divisions. This brings our teams closer to the enthusiast, enables faster responses to market trends and strengthens brand activation. While still early, we're already seeing meaningful improvements in consumer engagement, marketing effectiveness, and direct-to-consumer sales.

Given where our shares have been trading, we also opportunistically repurchased approximately $2 million of common stock during the quarter. Although our repurchase window is limited due to the blackout period at the end of Q2, this action reflects our confidence in the long-term value creation opportunity we see in Holley.

We also continue to execute on the portfolio rebalancing initiative we introduced last quarter. During the quarter, we completed the divestiture of our non-core restoration brands, including BROTHERS Trucks and Scott Drake. We now have just one remaining business to divest from the five businesses identified in the program, and we continue to have strong interest in that from multiple potential buyers.

Following the close of the quarter, we made additional progress in our highest capital allocation priority, reducing leverage, by making another $15 million voluntary debt repayment. This brings our total voluntary debt reduction to $115 million, since September of 2023.

Looking ahead, we believe we are well-positioned for the second half of the year, supported by new national retailer placements, an accelerating pipeline of product launches and continued execution of our strategic initiatives. I'll discuss those opportunities in more detail, later in my remarks.

Slide 6 provides additional detail on our second quarter financial results, along with several of the key commercial and operational highlights from the quarter. Net sales were $172 million. Gross margin was 41%, down 72 basis points from the prior year, while adjusted EBITDA was 19.6%, down 223 basis points, year-over-year. The decline primarily reflects the impact of tariffs, compared to the second quarter of last year.

Free cash flow increased versus the prior year. The improvement reflects continued operational discipline, strong working capital management, and the benefits of refunds related to IEEPA tariffs.

While our GAAP results reflect the net loss for the quarter due to that divestiture of our non-core restoration brands, adjusted net income increased to $24 million, more than double the $10.6 million reported in the prior year period. Even when adjusting for IEEPA tariff refunds, we believe adjusted net income more accurately reflects the underlying operating performance and earning power of the business.

Product innovation remained a key driver of our commercial momentum during the quarter. Across our American Performance division, we continued expanding our highly successful engine swap portfolio with new applications for the GM, LS and LT platforms, while also extending the Cataclean product family into the growing diesel performance market.

Within our Safety & Racing division, Simpson introduced new retro-inspired Bandit motorcycle helmets that build on one of the industry's most iconic models, while appealing to both on and off-road enthusiasts.

In our Modern Truck & Off-Road division, we launched a new Range RA-0110 module for full-size General Motors trucks and SUVs, giving customers enhanced control over cylinder deactivation, auto start-stop functionality and throttle response.

Operational execution also remained a key focus. During the quarter, we generated $5 million of purchasing and tariff-related savings and an additional $3.3 million from operational improvement initiatives, delivering a total of $8.3 million in savings. These results reflect a continuous improvement culture we have established across the organization and our ongoing focus on improving our cost structure, while investing for future growth.

Finally, the examples at the bottom of Slide 6 highlight the impact of our newly embedded divisional marketing teams. By placing marketing resources directly within each business, we've moved closer to our enthusiast communities and significantly increased the speed, relevance, and authenticity of our brand engagement.

Our teams are creating content that resonates with consumers where they spend their time, across enthusiast forums, social media events and grassroots communities. And we're also seeing encouraging improvement in engagement and direct-to-consumer performance.

Slide 7 highlights the performance of our four operating divisions. Three of the four divisions delivered double-digit core growth during the quarter, reflecting the strength of our innovation pipeline, disciplined execution, and early benefits of our enhanced brand activation strategy.

Beginning with American Performance, net sales declined 2.1% in the quarter. But as we discussed previously, the business continued to work through elevated channel inventory levels, which we believe have now normalized. In addition, we also intentionally moved out product categories from our Q2 marketing calendar into the second half of the year, creating more challenging year-over-year comparisons. Despite those temporary factors, the business improved significantly on a sequential basis, with the decline narrowing from 9.7% in the first quarter to 2.1% in the second.

With channel inventories now normalized, key product placements at national retailers and increasing marketing activity, we expect American Performance to continue improving, through the balance of the year.

Modern Truck & Off-Road delivered another outstanding quarter with net sales increasing 15.7%, accelerating from 3.8% growth in the first quarter. The division continues to benefit from strong consumer demand and a highly successful cadence of new product introductions that are gaining meaningful traction across both retail and enthusiast channels.

Euro & Import grew 13.1% at a significant acceleration from 1% growth in the first quarter. Earlier supply constraints have been resolved, allowing us to meet consumer demand and capitalize on the continued strength of the European enthusiast vehicle market. The division continues to benefit from a passionate and resilient enthusiast community, supported by strong demand across our core brands.

Safety & Racing continue to be a standout performer, with net sales increasing 13.8% year-over-year, building on the 10.2% growth delivered in the first quarter. Growth was driven by a strong cadence of new product introductions, continued innovation across our Stilo and Simpson brands, and sustained demand associated with the Snell 2025 helmet certification cycle. We also continue to see strong momentum in the motorcycle safety market where recent product launches are expanding our reach and reinforcing the strength of our portfolio.

Overall, these results demonstrate the strength and balance of our portfolio. Three of our four divisions delivered double-digit growth, while our largest business continued to improve sequentially, as temporary headwinds subsided.

More importantly, we believe the underlying drivers of our performance are becoming increasingly durable. We believe that our divisional operating model, combined with greater decision-making authority, dedicated marketing resources and a robust innovation pipeline is enabling our teams to respond faster to market opportunities, strengthening engagement with enthusiasts, and position each division for sustainable long-term growth.

Slide 8 outlines our long-term strategic framework, which many of you have seen before.
While the framework itself hasn't changed, our execution against it continues to accelerate. It remains the blueprint for how we allocate capital, prioritize investments and operate the business, every day.

The framework is built around our strategic pillars, beginning with making Holley a great place to work, strengthening the premier consumer journey, becoming a trailblazing trusted partner, driving product innovation and portfolio management, expanding into global markets, pursuing transformational M&A, funding the growth and, ultimately, delivering results for our shareholders. The value of the framework is it creates alignment across the organization and ensures every initiative supports a broader strategic objective.

As you already heard throughout this morning's remarks, our teams have remained highly focused on execution, and that discipline is translating into measurable progress, across the business.

As a reminder, Slide 9 highlights the key focus areas for 2026 that are embedded in the eight pillars of our strategic plan. We are making progress across each of these priorities, and you will see that reflected in the detailed initiative tracker on the next slide, which brings us to Slide 10.

The Strategic Initiative Tracker gives you a clearer view of our second quarter performance, across each pillar of the framework. Trailblazing trusted partner contributed $1.5 million in revenue. Our midsize B2B accounts remain balanced and healthy with a broad number of customers now contributing over $1 million each in the first half.

And our national retailer channel continues to grow, supported by planogram wins, expanded SKU distribution and stronger online traffic conversion. Premier consumer journey contributed $1.1 million in revenue. Our direct-to-consumer channel showed real strength, with Modern Truck & Off-Road posting approximately 17% year-over-year growth in June, alone. And third-party marketplaces in Q2 grew by more than 25%, year-over-year, led by strength across all our divisions.

Product innovation contributed approximately $4.5 million in revenue, once again led by strong performances in Safety & Racing and Modern Truck & Off-Road. Global expansion in new markets contributed $1.6 million in revenue, and our international strategy generated approximately $760,000 of incremental revenue in the quarter through distributor growth and global expansion. We also saw growth through our OE dealer channel fulfillment programs with new customer wins and new dealers coming on board.

Transformational M&A contributed $4.7 million of revenue, reflecting HRX revenue contribution in the quarter. HRX continues to perform well, as it is now a meaningful contributor to both growth and earnings. And as discussed earlier, Fund the Growth delivered $8.3 million in savings, $5 million from purchasing and tariff-related actions, and $3.3 million from operational improvements.

Altogether, our strategic initiatives contributed $13.4 million in revenue and $8.3 million in cost savings this quarter, demonstrating disciplined execution across every pillar of the framework.

Slide 11 revisits our portfolio rebalancing initiative, which we introduced last quarter and remains an important driver of our long-term value creation strategy. The framework begins with actively evaluating our portfolio and divesting brands or businesses that no longer meet our growth profitability strategic criteria. These businesses often require disproportionate time and capital relative to the value they create. By monetizing these assets, we generate capital that can be redeployed into higher return opportunities, while sharpening our strategic focus.

Those actions naturally lead to facility and complexity reduction, which we believe simplify the organization, improve our cost structure and enhance free cash flow generation. We then plan to redeploy both the capital resources and the higher growth opportunities through disciplined internal investment and targeted bolt-on acquisitions. Our acquisition of HRX is an excellent example of the type of business we are looking to add, one with attractive growth prospects, strong margins, solid cash flow generation and that complements our existing portfolio.

Over time, we believe this disciplined approach of monetizing non-core assets, simplifying the business, and reinvesting in higher return opportunities will strengthen earnings, improve cash generation, accelerate debt reduction and create greater long-term shareholder value. The divestiture of our non-core restoration brands, including BROTHERS Trucks and Scott Drake, completed during the second quarter, is continued progress of the strategy in action.

Now let's turn to Slide 12, where I'll provide an update on the progress we made to date on the portfolio rebalancing initiative, as well as other activities to lower our overall cost base.

Through our portfolio rebalancing initiative, we made meaningful progress simplifying the business. Year-to-date, we have divested four brands, eliminated two facilities, reduced our warehouse footprint by approximately 95,000 square feet, lowered our workforce by approximately 5% through divestitures and removed roughly 7,000 low margin SKUs, or about 16% of the portfolio. These actions are reducing complexity, improving our cost structure, generating capital, and allowing us to focus resources on our highest return growth opportunities.

In addition to these portfolio actions, we are continuing to take decisive steps to optimize our cost structure across both our operating divisions and shared services. As our operational distribution efficiency improves, we are aligning our manufacturing footprint and organizational structure, along with our cost base, with the current needs of the business.

During the second quarter alone, we completed two manufacturing site consolidations, reduced our employee and contractor base by more than 115 positions, lowered non-value-added SG&A spending and strategically reduced production and distribution activity, during seasonal demand slowdowns. These actions are creating a leaner, more efficient operating model, while preserving our ability to support future growth.

On an annualized basis, we expect these two work streams to deliver more than $12 million of one-time net cash, 150 to 200 basis points of EBITDA margin expansion, an additional $3 million to $5 million of annualized benefit, 0.2 to 0.3 turns of deleverage acceleration, and roughly a 5% improvement in inventory returns.

Taken together, we believe these actions position us with a simpler, more focused portfolio, stronger growth potential, higher margins, improved free cash flow and a faster path to deleveraging.

Slide 13 summarizes why we remain constructive on the second half of 2026. While we continue to operate in a dynamic macroeconomic environment, we believe the business is entering the back half of the year with improving momentum. Three of our four operating divisions delivered double-digit core growth during the second quarter, while American Performance improved significantly on a sequential basis.

Just as importantly, we believe the elevated channel inventories that impacted our largest business over the past several quarters have now normalized, providing a much stronger foundation, as we move through the balance of the year.

Against that backdrop, there are five additional factors that support our outlook for the second half. First, our portfolio rebalancing and operational improvement initiatives have created a simpler, more focused organization. By exiting non-core businesses, reducing complexity, and aligning our cost structures with the needs of the business, we've strengthened our operating foundation while creating additional capacity to invest in our highest return growth opportunities.

Second, we've secured approximately $12 million of new national retailer placements scheduled to launch during the third quarter, expanding distribution and increasing visibility for our brands with consumers.

Third, we have a strong pipeline of new product introductions planned across multiple divisions during the second half the year. Innovation remains one of our core competitive advantages, and we believe these launches will provide additional opportunities to drive growth.

Fourth, we've completed the transformation of our marketing organization with dedicated marketing teams now embedded within each division. We're already seeing stronger brand activation, deeper engagement with our enthusiast communities, and better alignment between our marketing investments and growth priorities.

Finally, HRX continues to perform well and is expected to make another meaningful contribution to both growth and earnings through the remainder of the year.

Taken together, these factors provide a solid foundation for the second half, while recognizing that we continue to operate in a dynamic market environment.

Before I turn the call over to Jesse, I'd like to thank our more than 1,300 team members, around the world. Their dedication, resilience, and commitment to executing our strategy have been instrumental in the progress we've made this year.

While there's still work ahead, I'm proud of what the team has accomplished and appreciative of everything they continue to do for our customers, our brands, and our shareholders.

With that, I'll turn the call over to Jesse to walk through our financial results in more details and provide additional perspective on our outlook for the balance of 2026. Jesse.

Jesse Weaver
Thank you, Matt. As you've heard today, we're continuing to make progress across a number of key operational and strategic initiatives. I'll now walk through our financial results for the quarter and provide an update on our key financial priorities, including profitability, cash flow generation, balance sheet strength and capital allocation.

As we move through '26, we're continuing to execute against the operational roadmap we've outlined over the past several quarters. The work we've done to simplify the business, improve efficiency, strengthen cash generation and enhance financial flexibility is producing tangible results.

While there is still more to accomplish, we're encouraged by the momentum across the organization. We believe the actions we've taken are building a stronger foundation for profitable growth.

Starting with profitability, we're continuing to realize meaningful benefits from our operational improvement initiatives. Through the first half of the year, these actions have delivered approximately $6 million of savings, driven by optimized staffing levels, manufacturing and distribution efficiencies and targeted facility and network cost reductions. These efforts are creating a leaner, more efficient operating model and supporting sustainable margin improvement across the organization.

For the full year '26, we expect these cost reduction initiatives to deliver at or above the top end of our $5 million to $7 million range, by the end of the year.

An equally important area of focus has been working capital management. Inventory improved during the quarter, reflecting the benefits of the actions we've taken throughout the year. Our inventory reduction initiatives have delivered more than $10 million of inventory reduction year-to-date, after adjusting for portfolio rebalancing efforts, representing meaningful progress toward our full-year objective.

While we're pleased with the results achieved so far, inventory reduction remains a key management priority, and we believe we remain on track to achieve our targeted reduction range for the year.

That progress is also contributing to continued balance sheet strengthening. We ended the quarter with a leverage ratio of 3.74x, reflecting the benefits of free cash flow generation, disciplined capital allocation and operational execution. While we've made meaningful progress over the last year, we remain committed to further deleveraging and increasing our financial flexibility, as we move through the remainder of 2026.

The progress we're making across profitability, working capital and leverage is strengthening the foundation of the business and improving our financial flexibility. We're building a more efficient organization, generating strong free cash flow and positioning Holley to capitalize on growth opportunities across our portfolio.

On Slide 16, we'll walk through our key financial metrics for the second quarter. Net sales for the second quarter was $172 million versus $166.7 million in the same period a year ago. The increase was primarily driven by $4.7 million of incremental net sales from acquisitions and improved price realization of approximately $10 million, partially offset by lower sales volume of approximately $9.4 million, compared to the prior year. On a core business basis, which adjusts for the impacts of our portfolio rebalancing efforts, net core sales grew 4.9%.

Gross profit was $70.5 million in the second quarter, compared to $69.6 million in the same period last year. Gross margin for the quarter was 41%, a decrease of 72 basis points versus 41.7% in the prior year.

The margin compression was driven by higher tariff-related costs and fixed cost deleverage on lower net sales volume, partially offset by pricing actions and improvements in operating efficiency. It's also worth noting that the comparison is affected by a one-time non-cash benefit in the prior year quarter from the capitalization of tariff costs into inventory that did not repeat this year, which makes the year-over-year change look larger than the actual shift in our underlying cost structure.

SG&A, including R&D expenses for the second quarter, was $44.2 million versus $38 million in the same period, last year. The increase in SG&A included $4.4 million related to a combination of legal expenses associated with the finalization of securities class action settlement and portfolio rebalancing costs associated with our ongoing efforts to simplify our portfolio, each of which is excluded from adjusted EBITDA.

Additionally, SG&A reflected incremental costs from the HRX acquisition integration, which is not part of the business in the same period last year.

Net loss for the second quarter was down $2.4 million, compared to net income of $10.9 million in the second quarter of '25.

Adjusted net income in the second quarter was $24 million versus $10.6 million in the same period of last year. Adjusted EBITDA for the second quarter was $33.8 million versus $36.4 million in the prior year and adjusted EBITDA margin was 19.6%, which represents a 223 basis point decline versus 21.9% in the second quarter of '25. As I mentioned on gross margin, that compares to the gross margin of the second quarter of 2025, which is affected by the same prior year non-cash tariff capitalization benefit that did not repeat this year. Adjusting for that item, we believe adjusted EBITDA performance was roughly flat, year-over-year, which we think is more accurate reflection of underlying operating performance of the business.

On Slide 17, we generated quarterly free cash flow of $40.9 million in the second quarter, which represented a $5.2 million increase, year-over-year. This performance reflects continued improved operational execution, disciplined working capital management and progress across our profitability initiatives, as well as a one-time benefit from IEEPA refunds that occurred in the quarter.

Strong cash generation enabled us to continue executing our balanced capital allocation strategy, including debt reduction, share repurchases and strategic investments in M&A.

On Slide 18, I'd like to spend a moment on capital allocation, which remains a core component of our strategy and reflects our commitment to creating long-term shareholder value. Our framework is straightforward and disciplined. First, we prioritize investments in the core business, including product innovation, operational improvements and initiatives that are important to the company, initiatives that we believe enhance our competitive position and support long-term growth.

Second, we evaluate strategic acquisitions that we believe strengthen our portfolio, expand our capabilities and meet our return thresholds. Third, we remain focused on reducing leverage and improving financial flexibility. Finally, as our balance sheet allows, we look to return capital to shareholders through share repurchases when we believe our shares represent an attractive value.

Over the past year, we've executed against each of these priorities. The acquisition of HRX added a highly complementary business to our portfolio and is continuing to contribute to both growth and earnings.

At the same time, we've remained committed to strengthening the balance sheet through debt reduction, including paying down borrowings under our revolving credit facility and further reducing leverage to 3.74x at quarter end.

In addition, as Matt mentioned previously, during the quarter, we repurchased approximately $2 million of our shares. While deleveraging remains a priority, we believe our share repurchase activity demonstrates confidence in the underlying value of our business and our ability to generate cash flow, while continuing to invest in growth and improve our balance sheet.

Looking ahead, we expect to maintain this balanced and disciplined approach. Our strong cash flow generation provides flexibility to continue investing in the business, pursuing strategic opportunities that create shareholder value, further reduce debt and opportunistically repurchase shares, when appropriate.

Overall, we believe the progress we've made across acquisitions, debt reduction, and capital returns demonstrates both the strength of our cash generation profile and our commitment to thoughtful capital allocation.

Turning to Slide 19, we ended the quarter with total leverage of 3.74x, its lowest level in the last four years, reflecting strong free cash flow generation and continued operational discipline and keeping us on track to end the year below our targeted leverage ratio of 3.5x. Our liquidity profile remains strong as we ended the quarter at $69 million of cash on hand and have paid back the $10 million drawn on our revolving credit facility in the first quarter. And since the quarter ended, we proactively prepaid another $15 million on our debt, bringing our total prepayments since September of '23 to $115 million.

We remain committed to further deleveraging, while continuing to invest in initiatives that we believe drive strong, long-term shareholder value.

Turning to our 2026 outlook, as we look to the balance of the year, we continue to see a relatively resilient consumer environment, supported by stable demand trends across our enthusiast customer base. At the same time, we recognize that the macroeconomic backdrop remains uncertain with inflationary pressures, higher fuel and transportation costs and the evolving tariff landscape creating potential headwinds.

We're closely monitoring these external factors as we move through the second half of the year and will continue to take actions, as necessary, to protect the health of the business. Against that backdrop, we're encouraged by the trajectory coming out of the second quarter, and we believe channel inventories in our largest division have now normalized.

That momentum carries into the back half. As Matt mentioned, we've already secured approximately $12 million of new national retailer placements for the third quarter. Our product pipeline remains robust going into the second quarter and third quarter, with a host of exciting new launches to help continue to drive growth into the back half of the year.

We're proud of the discipline our team showed to deliver this quarter and equally grateful for the partnerships of our distributors and retail partners whose confidence in our brands is what makes placements like these possible. Taken together, these factors give us the confidence to reaffirm the full-year guidance we issued last quarter.

And with that, we will open the line up for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. We ask that you please limit yourself to one question and one follow-up. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. One moment please while we poll for question.

Our first question comes from Philip Blee with William Blair. Please go ahead.

Olivia Witte
Good morning, this is Olivia Witte on for Philip Blee. So, you've discussed recently aligning portions of your marketing strategy. Can you elaborate on what those changes entail, the key performance indicators you're tracking to measure success, and whether you've seen any early signs of improvement in traffic, conversion, customer acquisition, or overall sales productivity?

Matthew Stevenson
You, good morning, Olivia, this is Matt. The changes in my prepared remarks I commented on, I'll go into some more detail, that there is a reliance on outside agencies, probably a significant portion of some of our marketing. So, it was over 20 positions that we then took from outside agencies and put those positions internally into our division marketing team. So our division marketing teams now have full staffs. Now we also have a center of excellence that still works on some things that are universally applicable, across all our four divisions.

But what that enables the teams to do is just be closer to the enthusiasts, create content faster, interact more to the forums, social media, and the different means that they engage with enthusiasts. And Modern Truck & Off-Road has had the complete marketing team the longest, and you can see some of the great growth there and the content they're generating.

And then we're tracking that all through a performance marketing funnel, from an awareness consideration all the way, you know, through the various steps on the activations, the number, the quantity and the quality they activate, and then how that impacts, ultimately, the purchase and reorders down through that complete marketing funnel.

So that's how we track it, and it's going really well. It was a lot of work, as you can imagine, hiring that many people in a fairly short amount of time, but it's great seeing the results already starting to come through.

Olivia Witte
Okay, that’s helpful. Thank you. And then you've been very optimistic about the momentum you're seeing with national retail partners. You recently announced the addition of a new major partner. So how do you view the runway for further retail expansion? Is the larger opportunity today entering new retail accounts or increasing shelf space and distribution within existing

partners? And additionally, what do you believe is driving these wins and how did their approach differ from competitors?

Matthew Stevenson
Okay, I'll maybe start with the end of that. So what differentiates Holley Performance Brands than many of our competitors, we are a one-stop shop performance for national retailers. So the breadth and depth of our product line and the professionalism that we operate as an organization, they can come to us for the majority or vast majority all their performance needs. And that's inventory they like to differentiate to bring enthusiasts into their locations.

Now, for us, we see it highly accretive because although we run a, you know, omni-channel approach, if you get up on a Saturday or Sunday morning and want to do some car modifications, you know, really,` the national retailer brick and mortar is your best alternative to get that product there and then.

And so, for us, there are long lead sales cycles. There's a lot of partnerships, a lot of discussions, a lot of investigation that goes into the proper planogram to get the results they're looking for on turns on their shelf space. And so, we've been working on these partnerships for over two years. You know, we're seeing growth in all our national retailers. The one specifically was a retailer we've been working with for some time to just take more of their category leadership on key performance.

But it's definitely a growth category for us, not only in the U.S., but in the national retailer footprint outside of the U.S. So we're pretty excited about it. Teams worked really hard, and it is great seeing the results coming through.

Olivia Witte
All right, thank you for the call, and good luck with the rest of the quarter.

Matthew Stevenson
Thanks, Olivia.

Operator
Our next question comes from Joe Altobello with Raymond James. Please go ahead.

Mitch Ingles
Hey, everyone, this is Mitch Ingles on for Joe Altobello. My first question is, given the recent retail wins that we're talking about and the continued product launches, how are you thinking about pricing for the balance of the year?

Jesse Weaver *CFO*
Yes, it's a great question. And from a pricing perspective, I think we did, I know we announced just recently a modest price increase just facing the freight headwinds that we're seeing in

terms of surcharges related to fuel and some of the memory chip challenges that, globally, everyone is experiencing. We have great partnerships with our national retailers, and the majority of them understand this, and we give them the right heads up in order to make those changes accordingly in their portfolios. So outside of that, no additional pricing expected for the year.

Mitch Ingles
Got it. That's helpful. And then my follow-up is on the, you noted the year-over-year EBITDA comparison was impacted by last year's one-time tariff capitalization benefit. Could you help us size that impact and bridge the EBITDA progression?

Jesse Weaver
Yeah, it's about $3 million to $3.5 million. So if you add that back, you would see that we'd be a slight EBITDA dollar-wise better than last year with a decent pickup on the margin rate, which would be much closer to par or much closer to last year on the EBITDA margin rate.

Mitch Ingles
Thank you, appreciate it. I'll jump back in the queue.

Matthew Stevenson
Thanks, Mitch.

Operator
Our next question comes from Brian McNamara with Canaccord Genuity. Please go ahead.

Brian McNamara
Hey, good morning, guys. Thanks for taking the questions here. Matt, on Slide 13, I thought it was a helpful slide here. You guys obviously identified five key factors that give you guys optimism for H2 here. Which one of these do you expect to have the largest impact and any color on the new national retailer partnership you guys announced yesterday would be helpful. Thank you.

Matthew Stevenson
Hey, thanks, Brian. Good morning. It's Matt. Yeah, we're excited about the back half of the year and, you know, the five calls we had here. You know, I think generally speaking, they're listed here because they're all impactful relative to how we see the back half. No doubt simplifying the operation with the divestiture of those brands and getting out a large chunk of, generally speaking, unproductive inventory makes the operations that much more efficient. Commented a bit on the national retailers, but that's been a long time coming and developing those partnerships.

And, you know, that was in our focus forecast for Q3, as well as we're seeing some great product innovations get some nice take rate in the market. There's two big ones planned for late in Q4 that we're also very excited about. One of the earlier questions, Olivia had asked on this marketing empowerment relative to the division structure and putting those resources in. It's just enabling them to be much closer to the enthusiasts and react a lot faster to trends and comments they're seeing in the marketplace.

So, we're seeing all that culminate and then in addition, the HRX continues to outperform the original estimates, and the team's doing a great job continuing to expand their portfolio. So, we're excited about, you know, all these factors and looking forward to the back half of the year.

Brian McNamara
Great. Secondly, the gap between your core and your net sales is different than we had it, probably because HRX was higher than we expect, at least that contribution. Jesse, can you quantify the sales you had last year that didn't repeat due to divestitures? And is it fair to run rate HRX's Q2 performance for a full year? Obviously not this full year, or is there seasonality?

Jesse Weaver
There's definitely seasonality in that, Brian. You're asking for like what's the base that we've worked off of, like if I was stripping out the prior year quarter items?

Brian McNamara
Yeah. Yes. Yep.

Jesse Weaver
Let's look at this real quick for you. So just as we talked about on the last quarter, whenever you kind of adjust all of the items in it, restoration was a big part of the down, the adjustment.

I think to break that out, Brian, it's probably a more nuanced piece that we probably don't want to get into on the call, but we can definitely kind of give you the impact for Q3, Q4 that we discussed on the last quarter which, when you look on a year-over-year basis, you're looking at about $6 million to$7 million on a year-over-year basis that you'd want to pull out of last year, and that takes into account everything we've divested, plus HRX.

Brian McNamara
Understood. And then finally, maybe one for Matt, which has seasonal Pioneer. From our vantage point, when you did your first deal in March since 2022, you authorized an inaugural share repurchase program. You continue to pay down debt. It feels like there's a lot of good stuff going on in your base business here and the market's not giving your stock the credit here. I'm just curious, you know, any thoughts here, guys?

Matthew Stevenson
Yeah, I mean, you know, Brian, as you pointed out, there's a lot of great initiatives going, and those have been in the work for some time, and we see that continued momentum and what

the team's been working on and now executing in the market. We just continue to do what we do and make sure we're, you know, having the right priorities relative to our capital allocation, first and foremost, continue to pay down debt. But we also have a robust pipeline of M&A targets there that we continue to look at, but we're very selective on what we're going to choose.

We want that criteria to be much like HRX, founder-led, double-digit growth, positive free cash flow, very complementary to the portfolio. We remain opportunistic where we see that share price just disconnected from what we feel the results are of the company, we're going to take that opportunity to buy back some shares. So it's, like you said, there's a lot happening and we're excited about the back half.

Brian McNamara
Thanks for the colors, guys. Appreciate it. I'll pass it on.

Operator
Our next question comes from Michael Baker with DA Davidson. Please go ahead.

Michael Baker
Thank you. I wanted to start by asking you about Slide 12. Some of the numbers have changed since the last quarter. For instance, the annualized impact is now $12 million net cash versus 15, before. Is that because of buybacks? Would that be, you know, when you say net cash generation, is that after the buybacks? I'm just wondering why that's down, whereas the EBITDA benefit is up now, right, between $3 million to $5 million. It was 1 to 2.

Jesse Weaver
Yeah, great question, Michael. And just to kind of clarify, whenever we did that the last time, it was just focused on financial impact of the box on the far left, and it was our original estimation. So our original estimation is we get $15 million. And all of that clearly excludes cash tax benefits which, obviously, you guys had seen, as we took a write-down on that, we'll be getting even more from a cash tax perspective.

So we've generated 12 of the 15, you know, as Matt had called out or we discussed. There's some other things that we're looking at that could get us to close the gap on the 15, but we generally feel like 12 was a pretty good result relative to our forecast.

And then the difference on the EBITDA piece, that takes into account the additional work that we've done since the last call when it comes to just lowering the overall operating cost of the organization. Since that time, we've decided to close a couple of other facilities. Obviously, the team member and contractor impacts play a big role as well, and those kind of increase the impact, overall.

Michael Baker

Okay, makes sense. Then a follow-up, I suppose, would be why not, first of all, was that $12 million from the new retail deal that you talked about, was that in the previous guidance? And then, if EBITDA savings are greater, why does the EBITDA guidance not change?

Jesse Weaver
Yeah, I think on the $12 million that we talked about, that's been a part of the guidance from the beginning. And just it's a de minimis change on the EBITDA change from what we'd shown before. And also keep in mind that's an annualized impact. That's not all going to impact this year. And to your previous comment, Michael, on shared buyback, that's not even contemplated in here.

Michael Baker
Okay. Great. Makes sense. I'll pass it on.

Jesse Weaver
Thank you.

Operator
Once again, if you would like to ask a question, please press "*", "1" on your telephone keypad. Our next question comes from Joe Feldman with Telsey Advisory Group. Please go ahead.

Joe Feldman
Good morning, guys. Thanks for taking my question. At a higher level, can you share some thoughts on the industry and like what kind of growth you're seeing in the industry? It seems like you guys are starting to really perform a bit better and just curious what you see there and how you're thinking about it as you kind of head into next year from an industry growth rate standpoint.

Matthew Stevenson
Hey, Joe. Good morning. It's Matt. Generally speaking, the industry, it's an imperfect science in our industry based without, you know, industry sponsored index. But generally speaking, as we track out the doors at our larger partners, both of our products and our overall business, generally flat to low single digits. So obviously, you're seeing outperformance in three of our verticals are significantly up, you know, double digits, plus.

And then on American Performance, really, there was just two things there. It was some hangover, still a bit of inventory that we believe we're now through, as well as changing on our marketing calendar for our Memorial Day event, which we excluded some of the biggest product lines in American Performance for a number of strategic reasons and decided to put those into the calendar in the back half. So, that's really why you saw that division performance the way it was.

Joe Feldman

That's helpful, thank you. And then maybe, Jesse, as a follow up. Can you talk a bit more about the gross margin in the second half? Like, are there any other puts and takes that we should think about? Obviously there was that capitalization cost of tariffs from last year in the second quarter. Anything else that we should be aware of in third and fourth quarters?

Jesse Weaver
Not anything like that, obviously, Joe. I mean that, in particular, was a one-time thing as last year the tariffs were coming in and we needed to capitalize all of those in Q2. And obviously, that continued accounting treatment continued throughout the back half of last year as it has throughout this year. So, it just kind of started in Q2, so there's nothing of note on that.

Joe Feldman
Got it. Okay. So is the 41 kind of how we should think about the gross for the second half now? Any adjustments that we can make? Actually, it goes up a bit. Sorry, usually it's 43, even higher, 46.

Jesse Weaver
Yeah, you would expect it to slightly tick up a little bit, just like you have in previous years between first half and back half? Yes. And as we talked about, some of the pricing that we've taken into account here will play a bit of a role there but, clearly, that was to offset some cost increases we're seeing, but you should see a slight uptick.

Joe Feldman
Okay. That's helpful. Thank you.

Jesse Weaver
Thank you.

Matthew Stevenson
Thanks, Joe.

Operator
Our next question is from Michael Baker with DA Davidson. Please go ahead.

Michael Baker
Sorry, I figured I'd jump back in the queue just to follow up on Joe's tariff question. You talked about refunds, this quarter. Two-part question here. One, can you talk about how much of a refund did you get? Do you expect that to continue? And then, you know, maybe more interestingly, one of your, I suppose they're a competitor, they're another auto parts manufacturer at least, talked about price reductions that they're going to pass through to their retail partners as they get tariff refunds. You're talking about price increases. Can you talk about that dynamic of whether you'll share any of the tariff refunds with some of your retail partners?

Jesse Weaver
So, Michael, I think it's worth clarifying, the IEEPA refund is a one-time thing, as you're very well aware, as that was repealed and no longer available as a tool for tariffs. The other tariffs that came in more than offset that, so it's not an ongoing cost savings that we've been able to benefit from.

The refund that we received, you can see it kind of broken out in the 10-Q, it’s around 10 to 11, but it's a one-time thing. Obviously, those costs we've already borne in our P&L, and so it's not anything that we're benefiting from other than the one-time cash infusion and something that we've kind of used to kind of offset other costs. If we had we not received it, certainly pricing would have gone up even more than we actually passed it through at this point. So in some way, we did share in that with our national retail partners, distribution partners and customers. So again, it's a one-time thing. It was offset by other tariffs.

Michael Baker
Got it. Fair enough. Appreciate the color.

Jesse Weaver
Thanks, Michael.

Operator
We have reached the end of our question and answer session. I would like to turn the floor back over to Matthew for closing comments.

Matthew Stevenson
All right, thank you, Dylan. Slide 22 highlights the compelling investment narrative we see surrounding Holley Performance Brands. Our enthusiast marketplace represents a vast, resilient, addressable market approaching $40 billion, and Holley's portfolio of story brands positions us to lead it.

This quarter reinforced that confidence. We returned to net sales growth with three of our four divisions delivering double-digit core growth. We made real progress simplifying our portfolio through the restoration brand divestiture, strengthened our balance sheet with leverage at its lowest level in four years, and generated a strong free cash flow, all while continuing to invest in innovation and marketing capabilities that drive our brands forward.

As we look to the back half of the year, we're carrying that momentum with us. Normalizing channel inventories, new national retailer placements, a robust new product pipeline and the continued contribution from HRX all give us confidence in reaffirming our full year of guidance. Our long-term commitment remains the same, stable organic top-line growth of at least 6%, 40% gross margins, and greater than 20% adjusted EBITDA margins, underpinned by sustainable free cash flow generation.

In closing, I would like to thank our team members for their dedication and execution this quarter, our consumers for their continued passion for our brands and our distribution partners, many of whom have supported Holley for many decades, for their continued confidence in us. We're excited about the momentum we're building and the opportunities ahead as we finish out 2026. Thank you for joining us this morning and have a great day.

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