

**Holley, Inc.**  
**Fourth Quarter 2021 Results - Earnings Call**  
**March 3, 2022**

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**Presenters**

**Tom Tomlinson - President and CEO**

**Dominic Bardos - CFO**

**Vinny Nimmagadda - EVP of Corporate Development and New Ventures**

**Sean Crawford - Chief Marketing Officer**

**Ross Collins - Managing Director, Alpha IR Group**

**Q&A Participants**

**Joseph Altobello - Raymond James**

**Mike Swartz - Truist Securities**

**Ryan Sundby - William Blair**

**Jeff Walter - D.A. Davidson**

**John Lawrence - Benchmark**

**Operator**

Greetings. Welcome to the Holley Fourth Quarter and Full Year 2021 Earnings Call.

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

I will now turn the conference over to your host, Ross Collins, Managing Director of Alpha IR. Thank you. You may begin.

**Ross Collins**

Thank you, Alex. Good morning, everyone. Thank you for taking the time to join us, today. On the call with me today are Tom Tomlinson, Chief Executive Officer; Dominic Bardos, Chief Financial Officer; Vinny Nimmagadda, Executive Vice President of Corporate Development and New Ventures at Holley; and Sean Crawford, Chief Marketing Officer. After their prepared remarks, we will open the call for questions.

Now I will reference the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995. This call may contain certain forward-looking statements that are subject to significant risks and uncertainties, including the future operating and financial performance of the company.

In many cases, these risks and uncertainties are beyond the company's control. Although the company believes the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct, and actual results may differ, materially, from expectations.

Important risk factors that could cause actual results to differ materially from those reflected in the forward-looking statements are included in the company's recent 10-Q, S-4 and S-1 filings with the Securities and Exchange Commission.

The information contained in this call is accurate, only as of the date discussed. Investors should not assume that statements will remain relevant and operative at a later time. Holley undertakes no obligation to update any information discussed in this call in the future.

Additionally, we will be discussing certain non-GAAP financial measures. The reconciliation of these items to U.S. GAAP are included in today's press release, which is also posted on our Investor Relations website.

At this time, I'd like to turn the call over to Tom Tomlinson, Holley's Chief Executive Officer. Tom.

**Tom Tomlinson**

Thank you, Ross. Good morning, everyone, and thanks for joining us, today. Holley's fourth quarter and full year 2021 results demonstrate continued strong consumer demand and robust sales growth, capping off a milestone year for our business.

As highlighted on Slide 5, our net sales grew by 30% in the fourth quarter, 17% from acquisitions with 13% organic growth. For the full year, net sales grew by 37%, 23% from acquisitions with 14% organic growth. While supply chain challenges limited our ability to fully satisfy consumer demand, our team performed well, and we've been able to capture meaningful growth.

We also executed on a price increase during the fourth quarter, which helped offset inflationary cost pressures and allowed us to maintain solid gross profit margins, which Dominic will talk about later in the presentation.

Looking forward to 2022, we'll continue to focus on developing innovative new products and engaging with our enthusiast consumers to broaden and deepen those all-important relationships.

I'll now turn it over to Sean to touch on Holley's strong consumer engagement. Sean.

**Sean Crawford**

Thanks, Tom. Holley continues to focus on building relationships directly with our consumers, both digitally and in-person at our company owned events. Our team's efforts to expand Holley's digital capabilities continues to drive incremental DTC revenues, as was evidenced by our fourth quarter results.

DTC sales were up, significantly, in the fourth quarter driven by strong performance marketing, content and social media marketing, event expansions and new brand integrations. For the full year 2021, DTC sales were \$113 million, up 35%, or roughly \$29 million, compared to 2020 results. These DTC sales represented 16% of total 2021 sales, up from 13% of total sales in 2020.

Our DTC strategy is core to what we do, as we continue to, directly, align our sales channels with our enthusiast customers' purchase preferences. As a result, we would expect to grow DTC sales at or above the rate of our overall business.

Holley-owned events also continue to be a key pillar of our consumer engagement strategy. These self-funded events act as an invaluable opportunity to learn more about our customers and truly understand the products that are resonating with the enthusiast community.

Our consumer events are scalable, and we're excited to expand our event calendar, as we continue to grow and innovate our product offerings. We hosted five total events in 2021 with a total attendance of 93,000 individuals.

As outlined on Slide 7, since 2015, we have seen an average annual attendance growth of 37%, proving that the Holley community is growing, rapidly.

During the fourth quarter, we were very excited to launch the Holley high-performance experience--or Holly High Voltage experience, rather--our inaugural consumer event dedicated to having fun with electric vehicles.

The event attracted many EV enthusiasts and influencers, as well as some of the leading EV manufacturers, such as Ford and Tesla.

Finally, we continue to leverage and invest in content marketing. Our educational and entertainment content, coupled with our strong social media presence, truly allows us to engage, inspire and support our consumers on their journey, while also driving incremental web traffic and sales for Holley.

For example, Holley's very own Motor Life digital publication continues to experience strong traffic growth, with page views more than double the prior year. Importantly, the large majority of this growth is coming from organic unpaid searches, as well as direct web traffic, indicating that our consumers are finding Holley on their online research, as well as returning for great content.

With that, I'll now turn it over to Vinny to discuss Holley's recent M&A activity.

**Vinny Nimmagadda**

Thank you, Sean, and good morning to everyone on the call. As highlighted on Slide 9, we closed on four separate acquisitions during the fourth quarter, including Arizona Desert Shocks, Baer Brakes, Brothers Trucks and Rocket Racing Wheels, further strengthening our product offering, across several vehicle platforms.

These acquisitions are in highly strategic, powertrain-agnostic product categories, such as off-road suspension, braking systems, appearance items and wheels. Ultimately, these brands expand our range of performance products and capabilities, which will allow us to connect with a broader set of enthusiast consumers, going forward.

As we have communicated previously, we have a robust pipeline of acquisition opportunities for our team to evaluate. Holley will remain disciplined with the ultimate goal of unlocking and expanding new and large addressable markets of strategic importance to the company.

I'd now like to hand the call over to Dominic who will discuss our financial results in greater detail. Dominic.

**Dominic Bardos**

Thanks, Vinny, and good morning, everyone. Thank you for joining us on this morning's call. I'll now cover our fourth quarter and full year 2021 results, which are highlighted on Slides 10 through 13.

Holley delivered net sales of \$179.8 million in the fourth quarter, an increase of \$41.4 million, or 29.9% in the fourth quarter of 2020.

Year-over-year sales growth from acquisitions accounted for 24 million of the 41.4 million growth, with the balance of 17.4 million being organic in nature. So, of the 29.9% sales growth, 17.3% was due to acquisitions and 12.6% was organic.

Gross margin increased from 39.4% last year to 41.6% in the fourth quarter of 2021. The increase in gross margin can be attributed to pricing, increased leverage from the higher sales volume and product mix.

Total selling, general and administrative expenses increased \$15.6 million to 37.7 million in the fourth quarter. Incremental SG&A from recent acquisitions was responsible for \$4.1 million of the increase in the quarter.

Additional cost drivers include an increase in equity compensation, public company expenses, an increase in outbound shipping costs due to the higher sales volume and an increase in professional fees.

Net income for the fourth quarter of 2021 was impacted by accounting charges to reflect the higher value of warrants and sponsor earn-out shares. As a reminder, these are non-cash items that are required to reflect the increased liability associated with those instruments.

Net income in the quarter was also impacted by the refinancing of our credit facility in November, which resulted in a loss on the early extinguishment of debt.

These large items more than offset growth in operating income in the fourth quarter and as a result, we recorded a net loss of \$18 million. This compares to net income of \$2 million in the fourth quarter of 2020.

Adjusted net income in the quarter was \$9 million, which compares to the same 2 million in 2020. Adjusted EBITDA increased to \$36.1 million in the fourth quarter, up from 30.4 million in 2020.

Now, let's turn to 2021 full year results. Holley delivered net sales of \$692.8 million, an increase of 188.6 million, or 37.4% from 2020. Net sales from acquisitions drove 116.4 million of that growth with a balance of 72.3 million from comparable organic sales growth. So, of the 37.4% net sales growth in 2021, 23.1% was from acquisitions and 14.3% was organic.

Gross margin increased slightly from 41.3% last year to 41.4% in 2021. We effectively managed prices during the year to offset supply chain and cost of goods sold pressure.

Total selling, general and administrative expenses increased \$45.9 million to a total of 116.8 million for the year.

Incremental SG&A from recent acquisitions was responsible for 18.5 million of the increase. Additional cost drivers included increased professional fees, an increase in outbound shipping costs related to the higher sales volume and DTC growth, and equity compensation.

Net income for the full year was also impacted by charges for warrants and earn-out share accounting in the third and fourth quarters, fees paid related to the business combination in the third quarter, the increased acquisition earn-out charge in the first quarter and the loss of the early extinguishment of debt in Q4.

As a result, we recorded a net loss of \$27.1 million for the year, compared to net income of 32.9 million in 2020. Adjusted net income for the year was \$61.8 million when the aforementioned items are removed. Adjusted EBITDA increased to 169.5 million for the year, up from 126.2 million in 2020.

I want to take a moment to touch on the quarterly cadence of our sales. Slide 13 contains quarterly net sales from 2021, compared to 2020. As we've stated previously, we saw a return to more normal seasonality in 2021.

In a typical year, we expect over 50% of our annual sales to be realized in the first half of the year, with the second quarter being the largest sales quarter of the year.

The fluctuations in our quarterly sales growth percentages in 2021 are, largely, due to the unusual sales pattern we saw in 2020, due to the COVID-19 pandemic that impacted reseller buying patterns.

I'll now provide our full year 2022 guidance, which is outlined on Slide 15. These ranges include organic growth and acquisitions that we have completed to date, only. No new acquisitions in 2022 are projected in these ranges, although we are always exploring potential strategic acquisitions and have available capacity on our new credit facility.

For the full year 2022, we are projecting net sales in the range of \$765 million to \$790 million and adjusted EBITDA in a range of \$186 million to \$194 million. For modeling purposes, we're also providing guidance for CapEx, depreciation and amortization and interest.

We expect 2022 results to include capital expenditures of \$14 million to \$16 million, depreciation and amortization between \$24 million and \$26 million and interest expense in a range of \$30 million to \$32 million.

That now concludes our prepared remarks. So, I'd like to turn the call back over to Ross to open up the call for questions. Ross.

**Ross Collins**

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

**Operator**

Thank you. At this time, we will be conducting a question-and-answer session. If you'd 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'd 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.

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

**Joseph Altobello**

Thanks. Hi, guys. Good morning. So a few questions on the quarter. I guess first, I assume the four tuck-ins that you did in the quarter were fairly negligible in terms of their contribution to sales and EBITDA. Is that correct?

**Dominic Bardos**

Yeah, Joe, this is Dominic. Yeah, the timing of those, they were late in the quarter. So, it was immaterial.

**Joseph Altobello**

Okay, great. So, if I look at your sales and EBITDA in the quarter versus the implied guide, you obviously beat your sales guide fairly sizably but the EBITDA guide by a much smaller amount. What surprised you, positively, on the sales front? And I guess what surprised you, negatively, on the OpEx side?

**Dominic Bardos**

Yeah, so a couple of things. One, as we entered into the year, basically, going into the second half, we knew that we had very strong consumer demand. And the big wildcard for us was our ability to overcome the supply chain challenges to meet it.

If you recall, we did defer \$7 million out of Q3 into Q4, which did assist us on the sales side in the quarter. But that had already been contemplated in our guidance.

**Joseph Altobello**

Right.

**Dominic Bardos**

So, from a sales perspective, I think we were very pleasantly surprised. I don't know if surprise is the right word, but pleasantly, I guess, encouraged to see the continuing consumer demand. It has just been robust the entire time.

With regards to some of the expenses on the SG&A side, we did have an increase in some of our professional fees associated with acquisitions that we did in the fourth quarter, as we did some of the refinancing and some of the work from a public company standpoint. Those were higher.

We knew those were coming. We didn't want to raise the guidance on sales without necessarily raising the guidance on the EBITDA. And on a pro forma basis, I think as we've released in the past and discussed in the past, we would have added another \$8 million or \$10 million in sales pro forma basis with another \$3 million in EBITDA.

So, we were above the guidance range. So, we felt very comfortable maintaining the guide that we had given.

**Joseph Altobello**

Okay, that's helpful. And maybe turning to '22, your guidance implies flattish EBITDA margins, this year. Can you sort of talk about what sort of headwinds and tailwind you're expecting from that perspective?

**Dominic Bardos**

Yeah, so, the first half of the year, we still have not lapped all of our public company expenses. And if you recall, we talked about that before. When privately held, those things would have been an adjustment out. And we just know as a public company, those expenses just have to be absorbed.

So, for the first half of the year, we still have those expenses to overcome. But from an overall margin standpoint, we're just balancing it with investments that we want to make to continue to drive consumer engagement on the DTC front. There's some marketing initiatives that we're undergoing, as well. And so we feel like the guide that we've given is great. We love that 24% to 26% sweet spot, and we believe we can manage to that.

**Joseph Altobello**

Okay. Thank you, guys. Good luck.

**Dominic Bardos**

Thank you.

**Operator**

Our next question comes from the line of Mike Swartz with Truist Securities. Please proceed with your question.

**Mike Swartz**

Hey, good morning, everyone. I guess from the acquisitions in the quarter, the four acquisitions, it doesn't sound like had much of an impact on the fourth quarter. But thinking about the 2022 guide, I guess what are you actually embedding in your estimates from those acquisitions?

**Dominic Bardos**

Thanks, Mike. This is Dominic, again. We've projected that those are an estimated impact of \$30 million in 2022. And I believe that's also in the slide deck.

**Mike Swartz**

And on an EBITDA basis?

**Dominic Bardos**

We haven't disclosed EBITDA, but the things that we're looking at, I would say the best way we look at that is on par with what we achieve.

**Mike Swartz**

Okay, got you. And then just with the--I think you said you took some price increases in the fourth quarter, which had a positive effect on revenue and margin. Just maybe talk about that. Were those price increases, broadly, across the business or on select items?

And then, should we expect further pricing actions to go into effect or I should say off-cycle pricing actions to go into effect in early '22?

**Tom Tomlinson**

Those increases were applied, broadly, to the product portfolio. And then, in terms of going forward into 2022, we generally do one price increase a year. We've historically done that. But obviously, when cost pressures demand, we've demonstrated the ability to get off-cycle increases.

So, we will just continue to evaluate kind of the cost environment and make those, decisions as we work our way through the year.

**Mike Swartz**

Okay, great. And then just a final question, maybe Dominic, help us think about just the moving parts for margins in '22, meaning how should we think about gross margin and operating cost, relative to '21 maybe as a percentage of sales?

**Dominic Bardos**

Yeah, so, we've talked about this before. We do know that we're overcoming some increased SG&A expenses. So, if anything, we're hoping to continue to drive gross profit margin expansion. But the target for EBITDA margin is really what we're after, around the 25% target is what we're always after.

So for us, we do know that we have to get a little bit more out of the gross profit margin side to overcome some increased SG&A. So, that's the best guide I can give you.

**Mike Swartz**

Okay, great. Thanks a lot.

**Dominic Bardos**

You've got it. Thanks so much.

**Operator**

Our next question comes from the line of Ryan Sundby with William Blair. Please proceed with your question.

**Ryan Sundby**

Yeah, hey, good morning, guys. Thanks for taking my questions. Over the past year, we've gotten to hear about your enthusiast consumer base quite a lot and whether that featured a strong attendance metrics at the festival that Sean shared the higher repeat rates and average spend per consumer we're seeing in your results.

I guess I'm going to flip this around a little bit and ask about more of a financially motivated consumer. With the really impressive performance we've seen at some of the collector car auction shows, so far here in 2022, I think we've seen strong sell-through, record volumes, average pricing up 50%, in some cases.

I guess as you look back, historically, when you see these trades where there's more of a financial reward for upgrading and restoring vehicles like this. Can you talk about what kind of impact that's had I guess on top of your passionate enthusiast base when you kind of built in this economic incentive like we're seeing, right now?

**Tom Tomlinson**

Well, I think we're poised to benefit from trends like that. But what I would say is that most of these financial investors we see moving into the market and bidding up prices, we feel like they've become enthusiasts.

This is a lifestyle, it's an activity that's contagious that gets in your blood. And the more excitement there is in general around the automobile, we feel like that benefits our company and our business.

**Ryan Sundby**

Yeah, that makes sense. I guess that that should be a strong motivator there. Then I guess just to follow up, I think DTC was up 35% for the year, sales were up 37% for the year. I'm assuming it's probably the contributions from the acquired businesses don't have as much DTC penetration yet. But why--I guess why would DTC be less than maybe sales for the full year?

**Tom Tomlinson**

Well, when you look at organic for the full year, it was 14% with the balance of that being from acquisitions. So, basically, that's my view of it. The acquisitions drove a large portion, obviously, of that 37% growth.

I think comparing the--and I think your assumption is right about the acquired businesses by and large having lower DTC penetration, but I think you should compare the 35% DTC growth to the 14% organic growth.

**Ryan Sundby**

Yeah, that makes sense. Thank you, guys.

**Tom Tomlinson**

Thank you.

**Operator**

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

**Jeff Walter**

Hi, guys. This is Jeff Walter on for Michael Baker, today. We were just wondering if you guys could kind of talk about some of the trends you're seeing in new customers versus old customers, and then kind of maybe talk about some of the initiatives that have been taken to help maintain the new customers?

And then, I know you guys have also talked about the loyalty program in the past, and if we can just get an update on that or any other initiatives around there? Thanks.

**Tom Tomlinson**

Sean, do you want to take this one?

**Sean Crawford**

Sure, yeah, so, new customer acquisition continues to be strong. What I can tell you is that we continue to focus on enhancing our digital capabilities that are going to further enable our customer retention and increase lifetime value.

So, as I mentioned in the presentation, digital capabilities, as it relates to communicating to the consumer and scaling that, is a big focus of us right now, and we're optimistic about what we can do there.

**Operator**

Thank you. Our next question comes from the line of John Lawrence with Benchmark. Please proceed with your question.

**John Lawrence**

Good morning, guys. Congratulations.

**Tom Tomlinson**

Thanks, John.

**John Lawrence**

Tom, would you talk a little bit about over the second half of the year, just about some of the different categories that you've seen, has there been any change in the third and fourth quarter as far as some of these components, what people are looking for?

And then secondly, maybe just a little bit of a dive into AEM and these new acquisitions sort of integration plan and where we sit as you look at AEM and AEM as far as getting the profitability out of that? Thanks.

**Tom Tomlinson**

Sure, John. When you look at the second half of the year, we saw continued strength in some of our leading categories like fuel injection, electronic fuel injection, like electronic tuning, also in our exhaust business. So, there was really nothing there that surprised us. Those were all categories we've been investing in and growing.

When you--in the context of integration, we made progress during the second half of the year, still a lot of work to do there. You mentioned AEM. We're exciting to be working more closely with that group. We've got those teams on the innovation side folded in together.

They are very focused on providing us with the electronic products that facilitate EV conversions on classic vehicles, so very, very excited to be making progress with that.

We did start the Simpson integration in the second half of the year. Just as a reminder, there was a one year earn-out there, and so we tread very lightly. And that business ended up performing very well.

So, we are in the process of integrating that, as well. And now we've got a host of other acquisitions that we did in the half that we're looking forward to getting integrated.

**John Lawrence**

Great, thanks. Just one more. What about--we talked about--obviously, navigated the supply chain extremely well. What did you learn in everything in that backlog? You made a lot of changes to sort of execute against that. Did that backlog number come down, as we move through the end of the year?

**Tom Tomlinson**

The backlog only came down, minimally. And I think the way to interpret that is, despite what I would call a yeoman's effort on the part of the team, we weren't able to fully satisfy the demand. So we still have a very robust backlog out there.

**John Lawrence**

Right. I'm sorry, last question. Sean, did I just see you on the ad for some of the marketing events that you've arranged other sponsorships? So, is it even more support for those programs? Is that correct?

**Sean Crawford**

Are you asking if we have sponsored programs related to our events that are help funding them?

**John Lawrence**

Yes.

**Sean Crawford**

Yes, we do that but only in a way that retains Holley as the premier brand and the owner of the event. So we did just bring on eBay Motors recently, as a presenting sponsor for our event series.

But as you can see on Slide 7 where the integration of their brand is limited, so we want to make sure that that asset is protected and communicated as a Holley event.

**John Lawrence**

Great. Thanks, guys. Congrats. Good luck.

**Tom Tomlinson**

Thanks, John.

**Sean Crawford**

Thank you.

**Dominic Bardos**

Thank you, John.

**Operator**

As a reminder, if you would like to ask a question, please press “\*”, “1” on your telephone keypad. One moment, please, while we pull for further questions.

Ladies and gentlemen, we have reached the end of the question-and-answer session. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

**Tom Tomlinson**

Thanks, everybody.