Fourth Quarter and Full Year 2024 Earnings Conference Call
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Presenters
Andy Nemeth, CEO
Jeff Rodino, President – RV
Andy Roeder, CFO
Steve O'Hara, Vice President of Investor Relations

Q&A Participants
Mike Swartz - Truist Securities
Dan Moore - CJS Securities
Joe Altobello - Raymond James
Noah Zatzkin - KeyBanc Capital Markets
Jack Weisenberger– ROTH/MKM Partners
Tristan Thomas-Martin - BMO Capital Markets
Alex Perry - Bank of America
Mike Albanese - The Benchmark Company
Brandon Rollé - D.A. Davidson
Craig Kennison – Robert W. Baird

Operator
Greetings, and welcome to the Patrick Industries' Fourth Quarter 2024 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press star, zero, on your telephone keypad. A question and answer session will follow the formal presentation. You may be placed in the question queue at any time by pressing star, one, on your telephone keypad. We ask that you please ask one question and one follow up and return to the queue. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Steve O'Hara, Vice President, Investor Relations. Please go ahead, Steve.

Steve O'Hara
Good morning, everyone, and welcome to our call this morning. I am joined on the call today by Andy Nemeth, CEO, Jeff Rodino, President—RV, and Andy Roeder, CFO.

Certain statements made in today's conference call regarding Patrick Industries and its operations may be considered forward-looking statements under the securities laws.

The company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the company's Annual Report on Form 10-K for the year ended December 31, 2023, and the company's other filings with the Securities and Exchange Commission.

I would now like to turn the call over to Andy Nemeth.

Andy Nemeth
Thank you, Steve. Good morning, everyone, and thank you for joining us on the call today.

I want to start by thanking our entire Patrick team for their amazing dedication, commitment, and resolution to stay focused to deliver resilient execution throughout 2024, despite market and macroeconomic volatility. This team remained disciplined in driving operational excellence and committed to our goal of serving our customers at the highest level, and I am incredibly proud of their performance as we continued to invest in our business, heightened our customer service expectations, and positioned the company for future growth. We have sized and scaled our business and are prepared for a recovery in our Outdoor Enthusiast markets.

2024 was another strategically significant year for Patrick as we continued executing on our long-term vision and strategic plan. We meaningfully expanded our presence in the Powersports space through the acquisition of Sportech and materially enhanced our aftermarket presence and capabilities with the acquisition of RecPro. We optimized our organizational structure by aligning our customer-first focus with our vision to drive the best customer service in the industry and structured our leadership and expertise across our end markets to drive innovation and growth. Additionally, we strengthened our financial foundation by proactively completing a debt refinancing that improved our liquidity position, reduced the cost of our fixed rate debt and extended our maturity profile.

Finally, we concluded the year by celebrating our history and the team's long legacy of commitment to each other by ringing the NASDAQ opening bell and hosting our inaugural Investor Day. The event showcased our bench strength, deep cultural foundation, the solid platform that supports our brand portfolio, our track record of growth and how we plan to meet our growth objectives. During our investor day, we outlined multiple growth avenues that exist for our business. First, we focused on our organic growth target of 2% to 3% annually through a combination of new and innovative products and the longer-term focus of our Advanced Product Group. Our ability to bring our full solutions model from our extensive product portfolio to our customers is a key facet of our strategy to drive long-term organic growth while we build ever-stronger customer relationships, striving to be the supplier of choice for our Outdoor Enthusiast and Housing markets. Second, we believe our end markets are at, or near cyclical lows, and expect them to return to growth over the long-term. Third, we have strategically diversified Patrick by acquiring complementary and adjacent businesses within our defined set of core markets: RV, Marine, Powersports, and Housing, to further expand the earnings power and cash generation potential for our business. And finally, with our late third quarter acquisition of RecPro, we see significant potential in the aftermarket and are just beginning to capture the opportunity that exists in that space.

In addition to our growth targets, we highlighted our culture and values and the "Empowered by Patrick" marketing and resource power to support our individual brands as they maintain their entrepreneurial spirit, while having the strong foundation of the Patrick enterprise behind them.

Moving to our financial highlights, for the fourth quarter, we delivered sales growth of 8%, equating to sales of $846 million. On an adjusted basis, net income per diluted share was $0.52. Full-year 2024 sales grew 7% to $3.7 billion, and adjusted net income per diluted share was $4.34. Our financial performance this year was driven by market share gains despite a mix shift toward smaller, more affordable units, strategic acquisitions, stabilization in our RV market, and strong performance in our Housing businesses, in particular, our Manufactured Housing businesses. The combination of these items helped offset declines in our Marine market where dealers and OEMs are focused on reducing field inventory levels. All told, our diversified model and flexible cost structure helped us maintain solid profitability in 2024, while also enabling us to stay strategic and thoughtfully position our business for the next up cycle.

Looking ahead, we're going to stay focused on meeting and exceeding the needs of our valued customers while preserving the ability to flex our cost structure as needed. We remain optimistic that consumer purchasing power and consumer confidence will improve as we move through the year, enabling some of the pent-up demand to be realized in 2025. This potential catalyst, combined with lean dealer inventories, could support improving demand as we progress through the year. At the end of 2024, our total net liquidity was approximately $804 million and, combined with our strong balance sheet, provides us significant flexibility to execute on strategic opportunities while continuing to return cash to shareholders. Our team remains dedicated to advancing our organizational objectives and driving additional shareholder value as we move through 2025.

I'll now turn the call over to Jeff, who will highlight the quarter and provide detail on our end markets.

Jeff Rodino
Thanks, Andy, and good morning, everyone.

Our OEM partners continued to demonstrate tremendous disciplined and sometimes aggressive inventory management throughout 2024 in response to ongoing interest rate and consumer demand headwinds. This discipline drove meaningful reductions in field inventory across our Outdoor Enthusiast markets. In RV and Marine, we estimate dealer inventories declined approximately 13% and 22%, respectively, during the year, and in the second half of 2024, certain Powersports OEMs had previously announced targeted dealer inventory reductions and recent reports suggest solid progress on those efforts. On the Housing side of our business, demand for affordable housing remained solid through the year, exceeding our expectations.

Our fourth quarter RV revenues increased 1% to $358 million, representing 42% of consolidated sales. RV content per unit on a full-year basis was $4,870 which increased

1% from the same period in 2023. On a sequential basis, content per unit was flat, reflecting a further mix shift towards smaller, more affordable units. RV wholesale unit shipments increased 3% in the quarter, while we estimate RV retail registrations increased approximately 1% during the same period. Our current estimates suggest the fourth quarter of 2024 will represent the first quarter in thirteen consecutive quarters where retail has improved over the prior year quarter, with October being the first month in 40 consecutive months to show retail improvement. Our estimates further suggest a seasonal dealer restock of approximately 14,000 units during the quarter, resulting in an estimated 17 to 19 weeks-on-hand versus the pre-pandemic historical averages of 26 to 30 weeks. The team recently attended the 2025 Florida RV Super Show in Tampa, one of the largest RV retail shows in the U.S., where we saw encouraging customer engagement. Thus far, news out of early season retail shows has been promising.

On the acquisition front, we are pleased to report that RecPro, our third quarter acquisition, has been an excellent fit within the Patrick family and the organic opportunities that are available within our existing product portfolio are greater than we originally anticipated. Our teams have demonstrated passion and efficiency while working together, and we've begun adding legacy RV product lines onto the RecPro platform, with strategic plans to integrate Marine and Powersports in the future. Additionally, earlier this week, we announced the acquisition of Elkhart Composites, a composite solution provider to the RV market. This acquisition bolsters our growing portfolio of industry-leading composite offerings, including PC Pro, PC Lite, Azdel, and NTXT, which we have highlighted on previous calls.

Marine fourth quarter revenue was $122 million, representing 14% of our fourth quarter consolidated sales. This compares to $147 million in the fourth quarter of 2023. Results reflect continued softness, particularly in the higher-engineered ski/wake, and pontoon categories, where we maintain a significant market presence. Marine content for wholesale powerboat unit decreased 3% to $3,967 on a full-year basis as a result of this mix shift. However, content per unit increased 1% on a sequential basis.

We estimate that Marine retail and wholesale powerboat unit shipments decreased approximately 7% and 20%, respectively, in Q4. These figures imply a seasonal dealer field inventory restock of about 13,000 units, which is lower than the historical average for this time of the year but reflective of the OEM's partnerships with the dealer base and helping cover floor-plan costs during the off-season. Our current estimated dealer inventory weeks-on-hand of 23 to 25 weeks is well below the historical average, which is 36 to 40 weeks, and down approximately three to five weeks from the same period a year ago, contributing to our belief that an uptick in demand could lead to dealers restocking more meaningfully.

Our Powersports revenues were $78 million in the quarter, representing 9% of our fourth quarter consolidated sales. Our Powersports business is primarily focused on the utility segment of the side-by-side market, which continues to demonstrate resilience compared to the recreational segment. We also participate in the motorcycle and golf cart segments of the market. Powersports OEMs are actively managing field inventory levels, and we're encouraged by the continued strength in the attachment rates and steady demand for premium features. Based on recent reports from certain Powersports OEMs, we believe ridership and usage have been more resilient than new unit retail sales, meaning customers continue to use their powersports products, which we believe is a positive sign. Heading into 2025, we are confident in our brands that compete in this space today and the runway of opportunity ahead of us. While the broader industry continues to calibrate, our Powersports' businesses are focused on supporting OEMs through engineering new products and solutions that consumers value.

Our Housing revenues increased 12% to $288 million in Q4, representing 35% of our consolidated sales. This growth was driven by continued momentum in manufactured housing, which we believe remains an attractive option for those seeking affordable housing solutions. Our MH content per unit increased 4% to $6,604 for the full year. In the fourth quarter, MH wholesale unit shipments increased 15%, offsetting softness within residential housing starts, which decreased 6%, with single-family starts down approximately 5% and multi-family starts down approximately 9%.

I will now turn the call over to Andy Roeder, who will provide additional comments on our financial performance.

Andy Roeder
Thanks, Jeff, and good morning, everyone.

Our consolidated net sales for the fourth quarter increased 8% to $846 million. For the full year, net sales increased 7% to $3.7 billion. Full-year RV revenue increased 8% to $1.6 billion, while Marine revenue was off by 27% to $571 million. Our Powersports revenue increased 189% to $352 million, and our Housing revenue increased 10% to $1.2 billion. MH wholesale shipments improved nicely last year, increasing 16%, and RV wholesale shipments also recovered, increasing 7% year-over-year. Marine wholesale shipments declined an estimated 25% for the full year. Retail registrations outpaced wholesale in RV and Marine suggesting solid reductions in dealer field inventory as OEMs across our end markets remained disciplined with their production schedules.

On a GAAP reported basis, gross margin was 22.1% in the fourth quarter compared to 22.9% from the prior year, partially due to the mix of revenue given end market dynamics, with OEMs focused on producing more affordable units in the quarter combined with typical seasonality. For the full year, gross margin was 22.5% compared to 22.6% in 2023. The fourth quarter and full-year gross margins include 30 and 10 basis points, respectively, of purchase accounting adjustments of inventory step ups related to 2024 acquisitions.

Total operating expenses were $148 million for the fourth quarter and $578 million for the full year. For the quarter, warehouse and delivery expenses increased 21%, primarily due to the third quarter acquisition of RecPro.

For the fourth quarter, SG&A expenses increased 20% to $81 million and amortization expenses increased approximately $5 million, or 26%. The increases in these expenses were directly related to acquisitions during 2024 and our decision to maintain our cost structure in the fourth quarter without further adjustment to ensure the efficacy of our business model and ability to support our customers upon signs of potential inflection in our markets. For the full year, SG&A expenses increased approximately 9% to $326 million. Amortization expense increased $17 million, or 22% to $96 million as a result of acquisitions.

Operating income for the fourth quarter was $40 million and $258 million for the full year. On a GAAP reported basis, operating margin was 4.7% in the fourth quarter and 6.9% for the full year. On an adjusted basis, and as noted in our press release this morning, after excluding certain one-time, non-recurring expenses including transaction costs, inventory step up and costs related to our debt-refinancing in the fourth quarter, operating margin was 5.2% in the fourth quarter and 7.2% for the full year.

On a GAAP reported basis, net income in the fourth quarter was $15 million, or $0.42 per diluted share, compared to $0.94 per diluted share in 2023. Adjusted net income in the fourth quarter was $18 million, or $0.52 per diluted share. For the full year, GAAP reported net income was $138 million, or $4.11 per diluted share and, on an adjusted basis for the full year, net income was $146 million or $4.34 per diluted share. As reconciled in our earnings press release, our adjusted net income and net income per share exclude certain one-time, non-recurring items including a fair-value inventory step-up related to acquisitions, transaction costs and expenses related to the extinguishment of debt. Please also recall that our per share data, including EPS and dividends, reflect our three-for-two stock split, which was paid on December 13.

Additionally, our fourth quarter and full year EPS include approximately $0.02 and $0.10 per share, respectively, in additional accounting-related dilution from our 2028 convertible notes and related warrants as a result of the increase in our stock price above the convertible option strike price. As we've noted in the past, we have hedges in place, which are expected to reduce or eliminate any potential dilution to the company's common stock upon any conversion of the convertible notes and/or offset any cash payments the company is required to make in excess of the principal amount of the converted notes. For GAAP reporting purposes, these hedges are always anti-dilutive and therefore, cannot be included when reporting earnings per share.

Adjusted EBITDA decreased 11% to $89 million, while adjusted EBITDA margin decreased to 10.6% for the fourth quarter. On a full year basis, adjusted EBITDA increased 6% to $452 million, while adjusted EBITDA margin decreased 10 basis points to 12.2%.
Our overall effective tax rate was approximately 29% for the fourth quarter and 22% for the full year 2024.

Cash provided by operations was approximately $327 million for 2024 and purchases of property, plant and equipment were $76 million for the year, resulting in free cash flow of

$251 million. This fell short of our outlook as we made the decision to strategically utilize our cash flows to maintain and procure certain raw material inventory to ensure we are in position to support any uptick in demand from our customers in the first quarter 2025. For the quarter, operating cash flow was $103, implying free cash flow of $77 million.

At the end of the quarter, our total net leverage was 2.7 times. We remain committed to our goal of de-levering while strategically evaluating acquisitions that align with our growth objectives. This approach has allowed us to pursue opportunistic acquisitions, such as Sportech and RecPro, during the year and smaller bolt-on transactions like Elkhart Composites, which was announced this week. We remain comfortable increasing leverage when appropriate to capitalize on strategic opportunities.

Available liquidity at the end of the quarter was approximately $804 million; comprised of $34 million of cash on hand and unused capacity on our revolving credit facility of $770 million. We are dedicated to maintaining a disciplined capital allocation strategy, prioritizing strategic acquisitions that align with our growth objectives, while also investing in projects that support our organic growth initiatives. These efforts are complemented by our commitment to reinvesting in Patrick and delivering value to shareholders through cash returns.

In 2024, we invested $412 million in acquisitions, including our acquisition of Sportech and RecPro.

During the quarter, we repurchased approximately $5 million, or 60,000 shares, and returned approximately $13 million to shareholders in the form of dividends. For the full year, we returned $55 million to our shareholders, including a total of $5 million in stock repurchases and $50 million in dividends. At the end of 2024, we had $200 million remaining under our current share repurchase authorization.

In November, Management and our Board of Directors demonstrated their confidence in our financial strength and growth potential by electing to increase Patrick's quarterly dividend by 9% to $0.40 per share.

Before we give our end market outlook, we want to discuss our estimated tariff exposure relative to our current expectations that align with the President's announcement on Saturday. Although we have seen changes this week to the original proposal and we will adapt as necessary, we believe it is worth providing color on our exposure to these three countries. In total, China, Mexico, and Canada account for approximately 10% of our cost of goods sold with approximately one half focused on China and the other half on Mexico and Canada. We have been diligently de-risking our offshore exposure over the past two years to China and are confident in our ability to further reduce our exposure to China by more than half, if necessary. We will continue exploring alternative sourcing options across all three countries where possible. We will continue to monitor the tariff situation as it is extremely dynamic. We have many optional tools at our disposal, including working with both our suppliers and customers in partnership through our good/better/best product offering, VAVE initiatives, and our strategic sourcing decisions to materially mitigate the impact to our margins at this time.

Moving to our end market for 2025.

As we have discussed, we are poised and ready to serve our customers and pursue additional market share gains. Our teams remain focused on monitoring key indicators such as customer, dealer, and consumer sentiment, dealer show activity, consumer confidence and interest rates, which we believe will continue to shape demand trends.

In the RV market, we are currently seeing early indicators of potential improving demand from our OEM customers. Meanwhile, Marine and Powersports OEMs are maintaining their disciplined approach to dealer inventory, though we anticipate some minor year-over-year restocking in the first quarter and fourth quarters as they thoughtfully manage inventories for the selling seasons. These trends reflect cautious optimism as we move forward.

In our RV market, we are maintaining our estimates that 2025 wholesale unit shipments will increase at a mid-single digit rate to approximately 350,000 units. We currently estimate that retail registrations will be flat in 2025, implying a one-for-one dealer replenishment environment.

In our Marine market, we estimate 2025 retail will be flat, bifurcated between the first and second halves of the year, and wholesale units for our overall product mix to be up 5% to 10%, as a result of the incredible production pullback and discipline shown in 2024 in our marine mix categories. This still implies a modest dealer inventory reduction for 2025 until solid signs of inflection occur.

In our Powersports end market, we expect unit shipments to be down approximately 10% with our organic content to be up mid-single digits for the full year, implying an overall mid-single digit decline for our businesses.

On the Housing side of the business, we estimate MH wholesale shipments will be up 10% to 15%, with retail sales absorbing available wholesale production on a real-time basis. In our residential housing end market, we estimate 2025 new housing starts to be flat to up 5%.

Given the current end market outlook we've outlined, we continue to estimate our 2025 operating margin will improve by 70 to 90 basis points versus 2024 adjusted operating margin. We estimate our operating cash flow will be between $390 million to $410 million and capex to total between $75 million to $85 million, implying free cash flow of approximately $305 million or more and a free cash flow yield of approximately 10%. For 2025, we expect our full year tax rate will be between 24% and 25%. As noted earlier, our EPS in 2025 could include additional dilution related to our convertible notes and warrants depending on our share price.

That completes my remarks. We are now ready for questions.

Operator
Thank you. We'll now be conducting a question-and-answer session. If you'd like to be placed in the question queue, please press star, one, on your telephone keypad. As a reminder, we ask that you please ask one question and one follow up, then return to the queue. Once again, that's star, one, to be placed in the question queue. One moment, please, while we poll for questions. Our first question today is coming from Mike Swartz from Truist Securities. Your line is now live.

Mike Swartz
Hey, guys. Good morning. Maybe just to start out with, it appears that your 2025 outlook, maybe aside from the manufactured housing business, is fairly in line with what you had discussed two, three months ago. I guess, within the ranges that you've provided, and maybe just some more qualitative commentary, I guess how are you thinking about the year as we sit here today versus maybe where we were three months ago. Are there any major changes?

Andy Nemeth
Good morning, Mike. This is Andy. There's no significant changes to that. I think there's some building optimism right now in some tailwinds building if you just kind of looked at where we were at a quarter ago versus where we're at today. We're optimistic with what we see today looking out. We're keeping our estimates in check right now just as--it's a little bit early to get a feel on the retail selling season just at this point. But certainly, in the next couple of months, we'll have a much greater feel on what that looks like. But right now, I'll just tell you that there's building tailwinds that we see. And so, we're optimistic but holding tight to our estimates.

Mike Swartz
Okay. Great. And then maybe for Andy Roeder. Just more housekeeping. Can you give us the breakout? That 8% growth, how much of that was inorganic versus organic and end market?

Andy Roeder
Yeah. Sure, Mike. That 8% growth was driven by acquisition revenue, which was up 11% for the quarter year-over-year. And then industry was down 4%. That's largely mix-driven. Organic was up 2%, and that's pricing down 2% and content share up 3.5%.

Mike Swartz
Okay, perfect. Thanks, guys.

Operator
Thank you. Next question is coming from Daniel Moore from CJS Securities. Your line is now live.

Dan Moore
Good morning. Thanks for taking questions. Maybe just talk about the biggest opportunities buckets, either end markets or products you see to continue to increase penetration and drive that 2% to 3% organic growth as we look at 2025 and beyond.

Andy Nemeth
Dan, I think that what we're really excited about is all the new product opportunities that we've been working on, both from a prototyping perspective for the current model year and in addition to our Advanced Product Group, which has been very active in working with our customers. And so, the content share gains that we see with new products and new product potential for 2025 is something that we're very excited about to be able to hit those targets or exceed those targets.

So, we've just--we've done more prototyping in the last year and a half than we've done in the prior three years. And so, it's an exciting time as we look out here and the innovations that our teams have come up with are very exciting to look at. So that, in addition to the fact that I think we're positioned, we've made the appropriate investments to be able to scale with our customers when we do see an inflection point should allow us the opportunity to be very aggressive in the marketplace, to be able to execute and really scale with those customers. So, we feel good about a number of the opportunities that are out there.

Dan Moore
Very helpful. And juggling three calls this morning. So if you said it and I missed it, I apologize. I appreciate the updated color on the full year outlook. Just looking at Q1, what are your expectations for revenue maybe relative to Q4 as well as operating margins relative to what we saw in Q4 on an adjusted basis or just holistically, how do we kind of think about starting out the year?

Andy Nemeth
I think really, as we're looking at the model, Q4 and Q1 are pretty similar as it relates to kind of the revenue expectations, really with some pickup. Q2 and Q3 are traditionally our largest quarters and where we expect to see a lot of the margin impact for the products that we're working on today. So Q1, relatively flat with Q4 as a current estimates and expectations, again, as we kind of move through the selling season here in the retail season in February, March, April.

Dan Moore
Perfect. And then just kind of a capital allocation question, but raised dividend by 9%, not insignificant--

Andy Nemeth
-- Hey, Dan, I'm sorry. Let me step back one second. I'm sorry, I was looking at the wrong number there. We're actually going to be up in Q1 from Q4. I apologize for that. I was--I had my comparisons off. We're going to be up in Q1 from Q4 as it relates to kind of where

we sit, both from a margin perspective. and a top line perspective. So I apologize, I was giving you a bad comparison there.

Dan Moore
No, that's fine. Obviously, as is typical, the bigger jump in margins will come Q2 and Q3, as you described.

Andy Nemeth
That's correct.

Dan Moore
Yes. Okay. And then just capital allocation, you've got significant liquidity, held a little bit of working capital, but we're a year coming up of tremendous free cash flow generation. Just what's the pipeline for M&A and talk about the balancing act between wanting to drive leverage a little lower, M&A opportunities versus maybe being more aggressive with the buyback as we're just the kind of inning one of a cyclical recovery here. And that's it for me. Thanks.

Andy Nemeth
So capital allocation-wise, we're carrying a little bit more inventory into Q4 as we had kind of previously indicated in anticipation of some uptick in production here as it relates to some--a little bit of restock, some seasonality, but in anticipation again to be able to scale with our customers. I think as we look out into 2025, first of all, the M&A pipeline continues to be full, and we continue to be very, very active in cultivating opportunities out there. So nothing's changed as it relates to our expectations to be able to continue to deliver M&A, and we're very excited about that. We're excited about the cash flow generation and capital allocation. We're going to continue to be disciplined and thoughtful about it. But again, I think we can be opportunistic and on offense here for the next two or three quarters for sure as it relates to all our priorities related to capital allocation.

Operator
Thank you. Next question today is coming from Joe Altobello from Raymond James. Your line is now live.

Joe Altobello
Hey, guys. Good morning. I guess first question, I want to talk about the cash flow in the fourth quarter. Maybe a little bit more color there. Which raw materials did you procure? Was this tariff related to try to maybe get ahead of that? And why wouldn't that be sort of a pull forward, if you will, and bolster cash flow in '25?

Andy Nemeth
Yeah, Joe, there is some pull forward there. We were disciplined in Q4 to make sure that we carried enough inventory. Most of it's in the RV sector as it relates to the raw materials that we brought in. So very liquid material as it relates to kind of how we're thinking about it. A little bit of Marine as well with some business that we picked up. So we look at that. We maintained constant and picked up a little bit of inventory in Q4 in anticipation of kind

of a little bit more activity in Q1 this year. So yes, there is a little bit of pull forward. We're going to continue to manage our inventories very aggressively, but we're in a great position. And like I said, it's very movable inventory from a raw material perspective.

Joe Altobello
Okay. And just to shift gears over to mix. You talked about it several times this morning. What are you guys assuming in terms of RV mix this year? Does it get better, or does it stay kind of where we were exiting 2024?

Jeff Rodino
Hey, Joe. This is Jeff. I think as we get into the first quarter, we've seen a little bit of uptick in production levels, but the mix has kind of remained the same from the fourth quarter to the first quarter. We believe that there will be some opportunity for that mix to switch back a little bit over to the mid- to high-end product. But again, we just want to see where retail starts to land, but as it sits today, from fourth quarter to first quarter, we're seeing it's pretty similar with the expectations that it could change later in the year.

Joe Altobello
Okay, great. Thank you.

Operator
Thank you. As a reminder, that's star, one, to be placed in the question queue. Our next question is coming from Noah Zatzkin from KeyBanc Capital Markets. Your line is now live.

Noah Zatzkin
Hi. Thanks for taking my questions. I guess, first, just on the kind of 70 to 90 basis point operating margin improvement in the outlook, is most of that volume-driven? Is there kind of any cost savings in there or automation efforts? Just trying to put together kind of like the puts and takes there. Thanks.

Andy Nemeth
Noah, this is Andy. It's primarily volume driven as we've set the organizational structure really to match up in alignment with kind of the revenue run rates that we've been experiencing over the last couple of quarters. And so it's really going to be volume related, and we just don't have to add a lot of significant amount of overhead to support a significant amount of revenue increase coming through. So we're going to be able to leverage the model the way we thought we could to be able to generate that.

Noah Zatzkin
Great. Maybe just one on RecPro. I know you touched on this a bit, but any kind of early learnings there, incremental opportunities versus what you had previously laid out? Or just kind of anything to note in terms of kind of the timeline there? Thanks.

Jeff Rodino
Noah, this is Jeff. We've been really excited about the RecPro acquisition and what we've been able to accomplish really in just the first three months of onboarding them. We've been able to add over 60 product categories to--60 products to the RecPro site of Patrick products that had not had that aftermarket exposure and we've got several more lined up, and we're starting to really incorporate some of the Marine divisions right now. So it's been really--really, really good for us. And we've been really enthusiastic about the teams working together and being able to get that product out there. It's been good.

Noah Zatzkin
Thank you.

Operator
Thank you. Next question is coming from Scott Stember from ROTH Capital. Your line is now live.

Jack Weisenberger
Hey, good morning, guys. It's Jack on for Scott. I've just got one question. What are kind of--what are you seeing from your touch points at retail in RVs? And it kind of seems like the retail has bottomed or at least near them and that dealers are ordering again. What should we look for regarding Q1 RV OEM production rates?

Jeff Rodino
Yeah, so from a production rate standpoint, we have seen a little bit of uptick. We believe that there is certainly a need to get additional inventory out in the system for the selling season. Our touch points are a little bit mixed, but there's some optimism out there. We've seen some good activity on the retail side. Went down to the Tampa show and certainly saw a lot of consumer engagement there, so we believe that there is opportunity for good retail growth or some retail out there, but we're still watching and waiting.

Jack Weisenberger
Great. Thank you.

Operator
Thank you. Next question today is coming from Tristan Thomas-Martin from BMO Capital Markets. Your line is now live.

Tristan Thomas-Martin
Hey, good morning. Asking kind of two questions that have kind of, I think, hinted out a couple of times. The first one, what are you seeing in your RV transport business so far in the first quarter?

Jeff Rodino
Yeah. So we're starting to see that additional product going out to the dealers. I will tell you we're still seeing a lot of the multi-haul, which means that we're seeing the smaller units. That seems to be what's kind of retailing right now and is getting a lot of activity on

our transportation side. So there's some--a lot of moving parts in the first quarter as people start to get product off the production lines and then we get it out to dealers. But we have not slowed down on hiring drivers to be able to make sure that we can meet the needs of the dealers in the--as we get into the selling season here.

Tristan Thomas-Martin
Okay. Thank you. And then just kind of content. If we take a longer-term view, right, and '25 has been--we've seen pressure from the cheaper units. And how are you in kind of the OEMs thinking about model year '26, model year '27, when do you think we really see that content inflection?

Jeff Rodino
Yeah, I mean--so a couple of things. Number one, from fourth quarter to first quarter, we've seen the mix relatively the same, even though we've seen some production uptick. But I think there's also the lifetime RV buyer out there that sat out of the market for the last couple of years because of availability and pricing. And as pricing's come back in line, come down a little bit, interest rates have come down a little bit, I think some of that, I'm going to say, lifetime RVer is going to come back into the market, which gives us that opportunity for that mid- to higher level product. I wouldn't--I'd like to be hopeful that we'll start seeing that in the second and third quarter of this year. So we're really trying to keep an eye on that. But there's definitely some opportunity for that mix to shift back as we get into a more traditional selling season. And as we're coming out of any downturn, what we've seen over the last cycles is this entry-level product is what the dealers are bringing to the market to try to get activity and retail activity back on the lot. So we think as that activity gets back on the lots, we'll start to see some of that change.

Tristan Thomas-Martin
Okay. And maybe if I could sneak one more in there, just can you kind of remind everybody, when are model year content decisions made typically and then how easy are they to change later on in, like, the product life cycle?

Jeff Rodino
Yeah, so on the RV side, RVIA has a suggested model change of June 1st. And we start working with customers almost immediately after the open house in October. When those decisions are made varies really by the lead time of the product. If it's an import product and it has a 12- to 16-week lead time, we're going to be pushed to make those decisions that really they should be made already right now based on a June 1 model change. But there's other products that we make here domestically that we don't carry a lot of inventory because we're build to order. We can make those decisions a little bit closer to the June 1st deadline.

Tristan Thomas-Martin
Thank you.

Operator
Thank you. Next question today is coming from Alex Perry from Bank of America. Your line is now live.

Alex Perry
Hi. I just wanted to ask again sort of about the increased enthusiasm you've seen in the RV segment coming out of show season. Can you just provide a little more color on what you think is driving that? Are you--do you think--you know, in the conversations with the OEMs as of late, what do you think is driving the increased enthusiasm? Are you seeing a little bit of increased consumer confidence as we get past the election or the conversations on the interest rate environment consumers are getting used to maybe a more stable but higher interest rate environment? Just more color on what's sort of driving your enthusiasm there, thanks.

Andy Nemeth
I think there's a combination of things that are driving that. I think the lean dealer inventories that are out in the space today across our markets, the tremendous discipline that our OEM partners have demonstrated to make sure that everybody stays nimble and scalable. I think certainly, consumer confidence and consumer sentiment with some of the uncertainty gone post-election, I think, is driving some of that. And I also think the consumer certainly enjoys the outdoor enthusiast experience. And so, as we look at our markets and what we've seen in the past, we do see these resurgences as it relates to excitement for the products in the space that we work in.

And so, we're just kind of feeling that right now. We're feeling that there's a lot of optimism in the space because of the discipline that's been put in. And then I think from what we've heard as it relates to the retail show season, there's been solid traction. And the consumer has been--consumers are buying units. And so, whether it's RV or marine, we're feeling a little bit of that enthusiasm. So, I think there's a lot of factors going into it and certainly, a little optimism is something I think we feel. Cautious optimism is a good term, but optimism is something that we're feeling across the space.

Alex Perry
Thank you. Really helpful. And then just on the guide, I think in the slide that says contemplating some moderate rate relief, how much of--how much is that sort of baked into what you are expecting in terms of the guide? And then I guess, just to revisit tariffs, you gave some very good quantitative color on potential--on your tariff exposure. Are the actual tariffs being contemplated in the guide? And what could be the potential impact? Thanks.

Andy Roeder
Alex, this is Andy Roeder. We have 50 basis points baked into our plan for next year. So that's--we've stuck with 50 basis points as the environment has changed a bit. But right now, we're not looking for a whole lot of relief. We think the 100 basis points we saw this past fall really hasn't moved the needle. So that--we don't think that that's going to change a whole lot.

Andy Nemeth
On the tariff front, Alex, right now, we don't have anything baked into our model or our plan as it relates to tariff impact, like we talked about in our comments, I think that we feel good about a lot of the risk mitigation that we've done as it relates to our offshoring from China, Mexico, and Canada are kind of a TBD right now, but opportunity to work with our customers, our product offering, different things that we can do because of the--of our multiple product lines and things that we can bring, we hope to be able to work with our customers to mitigate as much of that as possible. So we're going to be very active in that partnership. And again, so right now, we don't have anything built in as it relates to that. It's still an unknown. But I'm really proud of what our team has done, in particular as it relates to derisking kind of our China exposure over the last couple of years. They worked really hard behind the scenes to really drive alternative sourcing options, and we're not going to stop doing that. So again, we've not built any into the model at this point.

Alex Perry
Perfect. That’s very helpful. Best of luck going forward.

Andy Nemeth
Thanks.

Andy Roeder
Thanks.

Operator
Thank you. Next question today is coming from Mike Albanese from The Benchmark Company. Your line is now live.

Mike Albanese
Yeah, hey. Good morning, guys, and thanks for taking my question. Just a quick one on housing, and my apologies if I missed this here, but has the growth been more so driven by, I guess, inventory stock on the builder side or the uptick in, I guess, retail demand for affordable housing? I guess just help me unpack the bifurcation a little bit. Thanks.

Andy Nemeth
We think that it's retail demand for affordable housing out there. We've been -- for a long time, we've thought that there's not enough inventory and not enough capacity to support affordable housing demand. And so, the MH industry, in particular, has been very robust for us, and we're really proud of the team's work and what they're able to do, not only to be able to, again, bring value to our customers but bring additional product lines on. And so, we think it's very much related to the retail demand that's there and the enthusiasm that exists for affordable housing.

Mike Albanese
Got it. Thanks, guys. Nice job.

Andy Nemeth
Thank you.

Operator
Thank you. Your next question is coming from Brandon Rollé from D.A. Davidson. Your line is now live.

Brandon Rollé
Good morning. Thanks for taking my questions. First, just on the overall competitive environment, can you talk about any increases or potentially decreases in competition you've seen in some of your end markets, particularly within the marine and RV industries, just given people moving towards more affordable pricing on certain models and just overall customer preference?

Jeff Rodino
Yeah, Brandon, this is Jeff. We haven't really seen a lot of changes in the competitive environment. From our standpoint, we've always had two or three competitors in just about every space with every one of the product categories that we deal with and have not seen any change--really marked change in that in the last couple of quarters or really last year. We continue to push our team to try to stay ahead of our product categories to make sure that we're first out to the market with as many new products and innovations as possible to stay ahead of any competitions out there. And we've seen that happen, and we're proud of what we've been able to accomplish on that end.

Brandon Rollé
Okay, great. And just finally, just circling back to some of the optimism around the RV market, would you be able to comment on just the ordering activity post RV show season? It seems like there's been some mixed color around just actual retail sales and how eager dealers are to order. It seems like the larger more successful dealers may be in a position to order inventory more aggressively, but your average dealer, which makes up the bulk of the industry, may not be as excited to order inventory right now. Could you talk about what you're seeing, maybe bifurcating between the two different types of dealers out there right now? Thank you.

Jeff Rodino
Yeah, I don't think we can specifically talk about what the dealers are buying or not buying. I mean what we look at on a daily basis are the production levels. So I can tell you the OEMs and who's running what. We don't see specifically where the OEMs are shipping all of these. We see some of that through our transportation businesses, however, that doesn't give us the entire market. I mean, certainly, the big dealers out there are moving a lot of the smaller inventory, the major dealers, the smaller units, I should say. But we have seen some production uptick across the categories, across the entry level all the way up into the bigger product. But we still think that mix is a little bit heavier on the smaller product side.

Operator
Thank you. Our next question today is coming from Craig Kennison from Baird. Your line is now live.

Craig Kennison
Oh, great. Hey, thanks for taking my question as well. I just wanted to follow up on the tariff issue. Andy, I think you said really nothing baked into guidance, and that makes sense given a lot of the unknowns around Canada and Mexico. But based on the latest tweet that I read, I think there is an incremental tariff on Canada and China. Can you just address whether that incremental 10% tariff is something you've contemplated?

Andy Nemeth
Sure, Craig. We've definitely contemplated it as we've been active, like I said, in alternative sourcing, but also we work with our suppliers over in China as well. So we've been able to partner with them. And as we've looked out at business opportunities and production levels, we work with our supply partners there to make sure that we're mitigating as much as possible when it comes to that exposure. So it's a combination of alternative sourcing as well as working with our partners to mitigate as much of the impact as we can. So yes, we've contemplated it and we don't feel the need at this point to build that in.

Operator
Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Andy Nemeth
Yeah, I just want to thank everybody on the call, first of all, for joining us. I also want to send tremendous gratitude and thanks to the entire Patrick team who has exhibited unbelievable dedication and commitment in some uncertain times, especially in 2024. But the team has done just such a fabulous job. I'm so proud of the work that they've done to position the organization to really be able to optimize the opportunities that are coming forward as we look at 2025 and beyond. And so again, thanks to the entire Patrick team. Such commitment. Very, very proud of that. So again, thanks, everybody, for joining us on the call. We look forward to talking to you in Q1.

Operator
Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

Editor

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