PATRICK

First Quarter 2025 Earnings Conference Call
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<u>Presenters</u>
Andy Nemeth, CEO
Jeff Rodino, President – RV
Andy Roeder, CFO
Steve O'Hara, Vice President of Investor Relations

<u>Q&A Participants</u>
Mike Swartz – Truist Securities
Joe Altobello – Raymond James
Noah Zatzkin – KeyBanc Capital Markets
Tristan Thomas-Martin – BMO Capital Markets
Alex Perry – Bank of America
Alice Wycklendt – Robert W. Baird
Dan Moore – CJS Securities
Scott Stember – ROTH/MKM Partners

Operator

Good morning, ladies and gentlemen, and welcome to Patrick Industries first quarter 2025 earnings conference call. My name is Chemaly, and I'll be your operator for today's 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 star, zero on your telephone keypad. Please note that this conference is being recorded.

And I will now turn the call over to Mr. Steve O'Hara, Vice President of Investor Relations. Mr. O'Hara, you may begin.

Steve O'Hara

Good morning, everyone, and welcome to our call this morning. I'm 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, 2024, and the company's other filings with the Securities and Exchange Commission (SEC).

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.

Our first quarter performance was largely in alignment with our plan and expectations, attributable to our diversified business strategy and model, and strong operational execution. Our team continued to show incredible tenacity and flexibility in the first quarter amid a dynamic and evolving macroeconomic landscape across all of our end markets. As anticipated, in Q1, we saw production increases and a slight restock in both our RV and MH markets in anticipation of the selling season and continued production discipline in our Marine and Powersports markets, which were both down slightly year-over-year at the wholesale and retail levels. We did see sequential quarterly content gains in RV and Marine, both due to capturing additional market share as well as mix favorability as Jeff will outline further. Our new product developments and innovation efforts over the past 18 months are starting to take hold with more expected upside to come as we progress throughout the year. We completed two acquisitions in the quarter and repurchased approximately $8.5 million of our stock. Additionally, through these market fluctuations, we've maintained our focus on rigorous cost and working capital management, operating improvements, and product innovation to continue to actively manage our business to remain flexible, scalable, and nimble.

In the first quarter, we produced top-line growth of 7%, resulting in revenue of approximately $1.0 billion, and on a trailing 12-month basis, approximately $3.8 billion. Earnings per diluted share were $1.11, including approximately $0.05 of dilution from our convertible notes and related warrants, and our team drove organic growth of 2% net of pricing in the first quarter.

Our strong cash flows, diversified portfolio of brands, entrepreneurial culture, operational experience and expertise, and full-solutions model continue to enable us to swiftly adapt to market changes, maintain the flexibility to invest in growth initiatives, and respond to evolving industry dynamics with confidence. During these periods of uncertainty and volatility, we are confident in our ability to size and scale our business and execute on our capital allocation strategy to proactively take advantage of the many opportunities that present themselves.

In addition to the investments we've made in our Advanced Product Group to proactively drive innovation partnerships with our customers, we continue to invest in our portfolio of brands, and our empowered by Patrick brand-fronted strategy which encapsulates the resources that the combined Patrick entity brings to the table as a strong foundation for our customers and stakeholders, keeps us in a position of strength to drive and deliver the earnings power of the business. This BETTER together culture and strategy enables our business units to maintain their entrepreneurial spirit and unique identities that our customers recognize, while benefiting from the scale and capabilities of all of the Patrick brands.

As we have entered Q2, the global tariff headlines have definitely caused uncertainty in our markets, which we will address. And while Marine, MH, and Housing market trends have been a little more cloudy lately, RV retail has actually been fairly resilient based on our data and touch points. Looking ahead, while acknowledging the consumers' uncertainty in the current environment, we remain confident in the long-term resilience of the Outdoor Enthusiast lifestyle. The RVIA notes that RV repurchase intention remains strong among current owners with 85% of those intending to repurchase within the next five years. Additionally, they note that RV'ers are younger and using their units more on average. On the Powersports and Marine side, several OEMs have reported steady engagement with their segment of the Outdoor Enthusiast lifestyle. When economic uncertainty and headwinds ease, we continue to expect pent-up demand to inflect and pivot, driving new purchases and bringing additional organic and strategic growth opportunities.

At Patrick, we view our operational adaptability and capital allocation strategy as a key strength in this environment by focusing on what we can control, managing and aligning our highly variable cost structure, manufacturing efficiency, product innovation, and building and reinforcing strong customer relationships. We are well positioned with a strong balance sheet, cash flows, and liquidity to navigate near-term market dynamics and continue to execute on our strategic plan and capital allocation strategy while leveraging our foundation for sustainable, profitable growth when market conditions improve.

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

Jeff Rodino

Thanks, Andy, and good morning, everyone.

As Andy mentioned earlier, we are incredibly proud of our team for their ability to deliver impressive results and adapt quickly in this dynamic industry and macroeconomic landscape. In addition to our teams continuously looking for ways to save customers money and improve their production efficiencies, we have stepped up our efforts in regards to tariffs. Our teams have looked at every single product line and sourcing channel to find ways to mitigate the impact of tariffs on the end consumers in all of our markets. We have positioned our business to be nimble, and we continue to strategically diversify, optimize sourcing and cost structure, and strengthen customer relationships. By staying on the offensive, we are leveraging our supply chain capabilities to stay ahead of potential challenges and continue serving our customers at the highest level.

Moving to more detail on our end markets. Our first quarter RV revenues increased 14% to $479 million versus the same period in 2024, representing 48% of consolidated revenue. RV content per unit on a TTM basis was $4,870, flat from the same period last year. The improvement in revenue this quarter was driven by wholesale unit shipment growth and market share gains, partially offset by shipment mix. RV content per unit, on a quarterly basis, was up 6% sequentially compared to the fourth quarter of 2024.

RV wholesale unit shipments in the quarter increased 14%, and we estimate total RV retail unit shipments decreased approximately 7%. In anticipation of selling season, inventory weeks-on-hand increased from 17 to 19 weeks in the fourth quarter of 2024 to 20 to 22 weeks in the first quarter of 2025, and remain below historical averages.

On the product and innovation front, we continue to strengthen our presence in composites by investing organically and strategically to expand our capacity to produce innovative, durable, and efficient composite materials with a variety of applications and solutions for our customers.

This includes our recent acquisition of Elkhart Composites. We believe there remains significant product development and market share opportunity for this durable, corrosive resistant, more environmentally friendly alternative to traditional wood products.

RecPro, our leading aftermarket e-commerce platform, continues to integrate Patrick RV products on their website while developing its cross-selling functionality and adding products from our Marine businesses like SeaDek.

Our first quarter Marine revenues were $149 million, off 4% from the prior year, despite an estimated 10% decrease in wholesale powerboat unit shipments, primarily due to a more favorable shipment mix and market share gains. Our estimated Marine content per wholesale powerboat unit on a TTM basis was $3,979, flat from the same period last year. Estimated Marine content per wholesale powerboat unit, on a quarterly basis, was up 12% sequentially compared to the fourth quarter of 2024.

We estimate Marine retail and wholesale powerboat unit shipments were 30,700 and 36,500 units, respectively, in the first quarter. This implies a seasonal dealer field inventory build of approximately 5,800 units. Dealer inventory in the field remains lean at 26 to 28 weeks-on-hand, up slightly seasonally from 23 to 25 weeks in the fourth quarter of 2024.

Our full-solution model remains a pillar of our growth strategy as we deliver more innovation, individuality, functionality, efficiency, and savings to our customers. As an example of this model, we offer a ski and wake tower as a plug-and-play solution, including wire harnesses, dash panels, and helm systems with digital switching, electronics, and audio systems already built in.

As noted, we recently acquired Medallion Instrumentation Systems. This solidifies the nucleus of our harness, electrical, audio, and electronics solution, further enhancing our ability to bring value and solutions, not just components to our customers. Medallion is a premier provider of customized instrumentation including digital switching, lighting controls, integrated audio, wire harnesses, gauges, and LCD touchscreen displays, primarily serving the marine and transportation markets but also with tremendous applicability to our RV and Powersports market.

Our Powersports revenues were $81 million in the quarter, off 2% from the prior year period, and representing 8% of our first quarter 2025 consolidated sales. We have continued to see share capture and increased take rates for our Sportech-produced cab enclosures as more and more consumers prefer HVAC systems and protection from the elements in their side-by-side vehicles. Additionally, as we have discussed, our business continues to be more heavily skewed towards utility, which has remained more resilient than the recreation market. The decrease in revenue was primarily from our businesses more exposed to the recreation side of the market.

On the Housing side of our business, our first quarter revenues were up 7% to $295 million, representing 29% of consolidated sales. In Manufactured Housing, which represents 59% of our housing revenue in the quarter, our estimated content per unit on a TTM basis increased 4% year-over-year to $6,671.

MH wholesale unit shipments increased 6% in the quarter, while total housing starts decreased 2%.

Our Housing business remains poised to support builders and OEMs that continue to meet pent-up demand for affordable housing. We believe the U.S. remains significantly under-inventoried on affordable housing alternatives, and our OEMs are working diligently to highlight the value proposition and curb appeal of homes they produce while actively working to improve buyers' access to financing.

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.

Now moving to our financial results.

As mentioned, our first quarter financial performance was largely in line with our expectations, a testament to our team's execution in a dynamic environment.

Consolidated first quarter net sales increased 7% to $1.0 billion, driven by a 14% increase in RV revenue and 7% growth in Housing revenue, which more than offset declines in Marine and Powersports revenues of 4% and 2%, respectively.

Total revenue growth was 7%, comprised of 4% acquisition growth, 2% organic growth, and 1% industry growth. The organic growth consists of 3% share/content gains and -1% pricing.

Gross margin was 22.8%, up 90 basis points from the same period last year, primarily due to acquisitions, our diversified business model, labor management, and returns on our CapEx and automation initiatives.

On a GAAP basis, operating margin increased by 10 basis points to 6.5%. On an adjusted basis, operating margin decreased 50 basis points compared to an adjusted op margin of 7.0% in the first quarter of 2024. There were no material adjustments to operating margin in the first quarter of 2025. The change in margin versus Q1'24 was primarily driven by increased operating expenses as a result of acquisitions, combined with the first quarter seasonally low revenue stream of our growing aftermarket business, including RecPro. Approximately 60% of RecPro's revenues generally occur in the second and third quarters on a seasonal basis.

Our overall effective tax rate was 17.7% for the first quarter, compared to 10.6% in the prior year. The higher effective tax rate is due to the difference in the tax benefit related to equity compensation in the quarter.

On a GAAP basis, net income increased 9% to $38 million, or $1.11 per diluted share. Adjustments made to EPS were not material in Q1'25, therefore, adjusted EPS of $1.11 decreased 7% compared to $1.19 in the prior year period. As noted in this morning's earnings press release, our diluted EPS for the first quarter of 2025 included approximately $0.05 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. The prior year's diluted EPS included $0.01 per share from the same instruments. 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 any converted notes. For reporting purposes, these hedges are always antidilutive and therefore cannot be included when reporting earnings per share.

EBITDA increased 9%, or $9 million, to $108 million. Adjusted EBITDA grew 4% to $116 million while adjusted EBITDA margin decreased 40 basis points to 11.5% for the first quarter of 2025.

Cash provided by operations for the first three months of 2025 was approximately $40 million compared to $35 million in the prior year period, and purchases of property, plant, and equipment were $20 million in the quarter. We are committed to continuing to invest in our business to capture organic growth opportunities to create long-term value for our customers and stakeholders.

Our balance sheet remains solid. At the end of the quarter, our net leverage was 2.7x, down from 2.8x in the first quarter of 2024 and flat sequentially versus the fourth quarter. We have multiple levers available to further manage leverage without risking the business model, including further cost reductions, if necessary, and aggressive working capital management as we did in the second half of 2022 when the RV industry pulled back production sharply. We remain focused on maintaining a strong balance sheet, enabling us to opportunistically deploy capital for the right strategic acquisitions even if it results in a temporary increase in leverage.

Total net liquidity at the end of the first quarter was $745 million, with no major debt maturities until 2028, underscoring our significant dry powder, enabling us to remain nimble and on offense related to organic and inorganic growth opportunities. Total net liquidity was comprised of $87 million of cash on hand and unused capacity on our revolving credit facility of $658 million.

As part of our disciplined capital allocation strategy, we returned $8.5 million to shareholders through the repurchase of 99,800 shares while returning $14 million through regular quarterly dividends. As of today's call, in the second quarter, we have repurchased more than $8 million of stock and plan to remain opportunistic going forward as appropriate.

We want to update our estimated tariff-related product exposure relative to the most recent tariff policy announcements. As previously noted, 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. The rest of the world accounts for approximately 5% of cost of goods sold, implying total import exposure at approximately 15% of cost of goods sold. As mentioned last quarter, we have continued to diligently derisk our offshore exposure to China over the past two years and are confident in our ability to further reduce this exposure by more than half, which is already in process. We will continue exploring alternative sourcing options where possible and monitoring the tariff situation as it remains extremely dynamic. We have many tools at our disposal due to the breadth and depth of our sourcing channels, relationships, and expertise, including working in partnerships with both our suppliers and customers through our good, better, best product offering, VAVE initiatives, our Advanced Product Group, our product solutions model, and our strategic sourcing decisions, which we believe will help mitigate the absolute impact to our pricing pass throughs, and ultimately avoid any material impact to our operating margin.

Moving to our end market outlook. Consumer confidence and sentiment have declined following the recent policy developments, which we believe could impact consumers' short-term desire to spend on discretionary products. OEMs and dealers have continued to remain nimble, aligning inventory to demand while maintaining capacity for a potential inflection point. We believe that greater certainty in the minds of consumers around the economic outlook will improve their comfort regarding discretionary spending. We are closely monitoring trends and will react appropriately as conditions dictate, focusing on controlling what we can, maintaining a strong balance sheet while continuing to execute on our long-term growth and shareholder value initiatives.

We now estimate full-year RV retail unit shipments will be down mid-to-high single digits, implying wholesale unit shipments of approximately 310,000 to 330,000, based on equivalent dealer inventory weeks-on-hand in the field in 2024. Our prior outlook assumed flat retail shipments in 2025, representing a mid-single digit increase in wholesale unit shipments with the same weeks-on-hand estimate. We continue to believe that inventory weeks-on-hand in the field are not sustainable in periods of growth, and will need to be restocked with a corresponding increase in retail demand.

In Marine, we now expect retail to be down high-single to low-double digits versus our prior outlook of flat. This implies a low-single digit decrease in wholesale unit shipments again with equivalent dealer inventory weeks-on-hand at year-end 2024. We previously expected wholesale to be up 5% to 10% under the retail and weeks-on-hand assumptions mentioned.

In our Powersports end market, our content per unit continues to grow given ongoing increasing attachment rates for our cabin closures. And therefore, while we expect industry shipments to be down low-double digits, we expect our organic content to be up high-single digits.

In our Housing market, we now estimate MH wholesale unit shipments will be up mid-single digits for 2025 versus up 10% to 15% previously. On the residential housing side of the market, we estimate 2025 total new site-built housing starts will be down approximately 10% year-over-year versus our previous estimate of flat to up 5%.

We expect our effective tax rate to be approximately 24% to 25% for 2025, implying a quarterly effective tax rate of approximately 26% for the remaining three quarters of the year. We now estimate operating cash flow will be between $350 million to $370 million and maintain our estimated capital expenditures will total $70 million to $80 million as we continue to reinvest in the business, focusing on automation initiatives. This implies free cash flow of at least $270 million, an improvement of approximately $20 million, at the low end from the prior year.

With the volatility of the current macro environment, we remain focused on retaining our competitive advantage, continuing to enhance our relationships and value proposition to our customers, servicing our customers effectively, and also being judicious with cost reduction initiatives with an eye on the potential need to pivot to the upside should conditions change.

Given the changes to our shipment outlook, we continue taking targeted, thoughtful actions to reduce cost. These actions will help mitigate the negative impact on our profitability, and as a result, based on the assumptions I just mentioned, we now expect our full year 2025 adjusted operating margin to be approximately 7.0% to 7.3% for the full year. Based on usage commentary from outdoor enthusiast OEMs and other qualitative insights from our customers, we believe demand will recover as consumers gain confidence in the economic outlook, although the timing on this recovery remains uncertain. Should that belief change, we have a playbook to further scale back our cost profile, and will execute if needed, if we believe these run rates will be longer-term in nature.

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

Operator

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

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

Mike Swartz

Hey, guys. Good morning. Maybe just to start on tariffs. And I think the -- hopefully, I'm doing the math correctly. But I think based on what you said, maybe the gross exposure to tariffs as they stand today is somewhere in the $250 million neighborhood. One, I guess, is that correct? And then two, I guess, how much are you anticipating being offset? How much of that do you expect to flow through is built in your guidance here for 2025?

Andy Roeder

Hey, Mike. Good morning. This is Andy Roeder. I can take a stab at this. Certainly, tariffs, dynamic environment. The team is all over it, though, identifying the changing regs as well as the exclusions, identifying potential cost impact by country, by product category. From a company-wide perspective, we've said 5% of our COGS are imported from China, 5% from Canada and Mexico, and then 5% from rest of the world. So, I think you can do the math there. I think your $250 million is a little low. But I think just in terms of offsets, I mean, our goal is to do everything we can to mitigate the impact to our customers. We have many levers at our disposal. We're looking at alternative sourcing options, of course, using our scale, some strategic sourcing that we have, some here, some overseas. But we're going to remain nimble, be thoughtful about cost reductions, inventory management. China certainly is our biggest risk, and that's where we're moving the fastest. And again, I think we can move about half of our exposure in China.

Mike Swartz

Okay. That's helpful. And I didn't hear in your statements there anything about pricing and I think some of the OEMs, some of the dealers have talked about maybe a mid-single digit price increase for model year '26. I mean, I guess, how much do you expect to use pricing as a lever to offset some of the tariff load?

Jeff Rodino

Yeah, Mike. This is Jeff. We are going to look at our pricing as we get it in. We're not just randomly throwing out price increases just because there's tariff discussion in the market. We're being very thoughtful about where we're at. We're talking closely with all of our customers, going through line-by-line where we can mitigate costs, where we can use our good, better, best model possibly to mitigate some of the tariffs. So, it's a line-by-line item that we're doing. And there is going to be some cost that gets passed along. Certainly, some of the early tariffs from China, the 10 plus 10 is something that's out there. I can't speak directly to what increases our OEMs are putting on their products into the market. They'd have to talk about that. But certainly, we're being very thoughtful as we discuss all of their new products as they go into model change. I think you're aware that the model change is June 1st versus July 1st. So, a lot of those discussions have been going on through March and April to prepare for production starting end of May and into June.

Andy Nemeth

Mike, this is Andy. I'm going to add a little bit to that. As Jeff mentioned, we're actively working with our customers in partnership to identify every area where we can to mitigate the impact of anything that we're going to have to pass along. When we think about our exposure to the tariff situation in China in particular, most of our exposure is related to the appliance side of our business and the electronics side. We've moved a lot of the electronics overseas sourcing already. And that's -- as Andy mentioned, we're in process of moving as much as we can away from a risk mitigation perspective. And then on the other side of it, as it relates to the appliances, these are fairly low-end products. And so, we're going to do, like I said, everything we can from a good, better, best situation and scenario analysis to be able to work with our customers to mitigate as much of the impact that we have to pass on as possible.

Mike Swartz

Okay. That’s super helpful. And maybe just one last from me. One of the big dealers was talking about maybe product mix being a little more dilutive this year than expected. So, I mean, I guess, are you seeing in the production runs from some of your customers? And, I guess, what are your expectations relative to maybe content relative to the mix headwind that we’ve seen in this industry playing out maybe over the next 12 months?

Jeff Rodino

Yeah, Mike. This is Jeff again. We have seen the mix kind of stay stable from where we were at the end of 2024 into 2025 with regards to small entry-level units. We haven’t seen a lot of de-contenting going on throughout the market from low-end to high-end. We have seen some additional high-end being built out there, but certainly, it’s offset by the entry-level product that’s out there. So, I mean, we continue to believe that’s going to be kind of where people are going to go to, to start to get people back on the lots as some of these macroeconomic dynamics change. But I think we feel pretty good about the -- I guess, the mix not getting any significantly different than what it is today.

Mike Swartz

Okay. Great. Thanks, guys.

Andy Nemeth

Thank you.

Operator

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

Joe Altobello

Hey, guys. Good morning. I guess, first question, I just wanted to clarify. So, if we look at the old versus new operating margin, I guess it’s down, call it, 85 bps. So that is all coming from a reduction in end markets, and there’s no incremental impact from tariffs versus where we were in February?

Andy Roeder

Yeah. I think -- Joe, this is Andy Roeder. I think the biggest impact is to volume. We’re pulling out 30,000 RV units at the midpoint as well as about 17,000 marine units. So, that’s the biggest impact to op margin.

Joe Altobello

Okay. I'm just -- it's unclear because with the China tariff at 145%, it wasn't there in early Feb. So, I'm curious how you're offsetting that?

Andy Roeder

Well, we're doing everything we can. We've moved product out of China. Currently, 145% is the percent of the headline, but there are exclusions. So, just working through that. We have the tariff impact baked into our forecast.

Joe Altobello

Okay. And just a follow-up on the RV outlook, the shipment forecast coming down. Q1, I think you mentioned that shipments were up 14%. So, it sounds like that was just dealers trying to get inventory right ahead of the selling season, not an indication that they're getting any more optimistic about retail?

Jeff Rodino

Yeah, Joe. This is Jeff. I mean, if you look at the retail numbers, January was flat to maybe down a little bit. February showed down 12%. We don't definitely know March yet. But that's not the trend that we expected going into the year when we kind of put together our first forecast at that kind of 340K to 350K number. So -- and then we've looked at the production levels. We have a good eye on all the production levels. Production levels did spike. I say spike but moved up a little bit starting in January, February, and March. We've seen those temper a little bit, which would lead us to believe just from our past is that if they're tempering the production levels a little bit, the retail is evening off a little bit. And so, all those things combined, definitely with the lack of consumer confidence out there, like Andy mentioned in the prepared remarks, leads to people not looking at the discretionary spend the way they used to. So, all those kind of factors are where we came up with those numbers.

Andy Nemeth

Joe, this is Andy. I think as we looked at the production levels in the RV space in particular and we had anticipated a little bit of seasonal uptick in Q1 in anticipation of the selling season, I think the manufacturers were extremely thoughtful in the way that they managed their production. We only saw two weeks of additional weeks-on-hand from the end of Q4 to the end of the first quarter of 2025. And so, while there was a little bit of a build on the wholesale side in anticipation, again, the OEs have been very thoughtful from our perspective and really being -- in managing their inventories to match up with retail. So, we don't feel like there's anything out of line at this point in time as it relates to production/retail matching up.

Joe Altobello

Okay. Super. Thank you.

Operator

Thank you. Our next question comes from the line of Noah Zatzkin with KeyBanc Capital Markets. Please proceed with your question.

Noah Zatzkin

Hi. Thanks for taking my question. If you could just maybe talk about some of the cost levers that you're using right now as well as additional levers that you could pull, should the environment kind of deteriorate? Thanks.

Andy Nemeth

Noah, this is Andy. I think as we're looking at cost levers, first of all, we have a highly variable-cost business. And so, we're flexing our variable costs in alignment with the revenue stream, which we always do, and we've got a playbook to execute upon that. So, that's something that we're doing all the time. We are making some additional fixed cost reductions as we kind of look forward here as we were anticipating -- kind of hoping for a little bit of an upside here. The tariff scenario certainly put a little bit of a damper on that. But we're being thoughtful about fixed cost reductions. I think we're very confident in our ability to manage this business and size and scale it appropriately depending on whatever the revenue stream is. So, the high variable cost model for us is something that we maintain, we focus on. We look at all those costs and manage very aggressively as it relates to sizing and scaling the business. So, we've got downside scenario analysis out there, as well, and a playbook to execute upon those to continue to maintain really the strength of the business model and the strength of the cash flow so that we can stay in a position of offense here, especially in these volatile markets.

Noah Zatzkin

Really helpful. And just hoping maybe you could kind of give an update on RecPro and how the aftermarket business is progressing. Thanks.

Jeff Rodino

Yeah. This is Jeff. It's progressing as we expected. I think we're -- I think Andy mentioned in the remarks that they're kind of launching into their higher seasonal activity. We've seen it really kind of follow the same trajectory it has the last three years with their sales. It's been really encouraging to get additional Patrick RV products on there and start to get some additional Marine products from our Marine divisions onto the RecPro site. So, we're monitoring the sales for each one of those product lines to see where the impact is, but we're definitely pleased with the direction it's going so far, certainly going into what would be their heavier selling season.

Noah Zatzkin

Thank you.

Operator

Thank you. Our next question comes from the line of Tristan Thomas-Martin with BMO Capital Markets. Please proceed with your question.

Tristan Thomas-Martin

Hey. Good morning. I want to follow up Noah's question on RecPro. If we do enter an environment where tariffs stick and model '26 pricing goes up, I know you don't guide to RecPro, but I mean, how much of a tailwind could that be if maybe people put a little more into their RVs as opposed to buying new?

Jeff Rodino

I mean, in theory, that's what you would expect. We've talked about that throughout the years when we've had cycles that the aftermarket piece of the business is a little bit countercyclical to everything else that's going on when we have downturns in the market. If you look back at some of the RecPro history, he has seen that. But as you mentioned, we're not going to do a lot of guidance on that, but that would be what we would expect in an adverse market on the retail side.

Tristan Thomas-Martin

Okay. And then just one question on kind of moving sourcing out of China into other countries. If we kind of remove tariffs from the equation on a like-for-like product basis, I'm just curious how like pricing compares or product quality compares as you're kind of moving to different countries as a source of manufacturing. Thank you.

Jeff Rodino

Yes. This is Jeff. We're very careful. I mean, what we're -- when we look at other countries. It's not just, hey, they can do that, let's move it over there. We have a team that goes over and qualifies those manufacturers. We definitely look at the pricing to make sure that it is in the ballpark or if not better than where we're at in China, depending on, certainly the tariff situation. So, we're very cautious with that. It's not just a knee-jerk, throw it into another manufacturing facility from China. So, it takes some thought. And if you look back over the last three years, we've spent a lot of time and effort moving product into different areas, and I think it's paid off for us, and we've been able to get the equal amount of quality and service that we have out of the Chinese plants.

Tristan Thomas-Martin

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Alex Perry with Bank of America. Please proceed with your question.

Alex Perry

Hi. Thanks for taking my questions here. I guess, just to follow up on tariffs and maybe put a finer point on it. So, it sounds like the current tariff rates are in the guide and there is no incremental op margin pressure from them. Does that imply that you're fully offsetting them right now or plan to fully offset? Are you passing along pretty much all the cost to the customers who are sort of passing it on to the end consumer? I just want to make sure I'm clear on the tariffs. Thanks.

Andy Nemeth

Alex, this is Andy. I think as we think about tariffs, again, as Jeff mentioned and we talked about, we're going to continue to actively work on the multiple levers that we have to be able to offset as much of the tariff impact as we can as it relates to these products and commodities.

So, our goal is to mitigate as much as we can and -- as it relates to passing on the headline numbers. So, our goal is to continue to work with our customers. We've got multiple sourcing opportunities. We've got the good, better, best solution. And so, as we look at it, again, we're doing everything we can -- cost reductions within the business to make sure that we are partnering with our customers in this process and doing everything we can to support the industry as a whole.

Alex Perry

Really helpful. And then I just wanted to ask about the sort of expectation for the shipment cadence on the RV side. Sort of embedded within the guide, is it that growth rates accelerate from here? We've heard a couple of positive April data points on the RV side. It seems like the retail environment has been fairly resilient. So, can you just talk about your sort of expectation on how you would expect shipments to flow from here?

Jeff Rodino

Yeah. So, this is Jeff. We have -- we even stated in there in our prepared remarks that retail seems to be resilient on the RV side. If you look at February numbers, they weren't the level that we expected them to be. So, I think there's some caution there, especially when you have the potential of some tariff headwinds. I think what we would really need to see to see an inflection point would be some of that consumer confidence start to bounce back. I will tell you that within our organization, we're definitely prepared for any type of inflection up or down in the coming months and would expect -- if you look, we're really calling out the high point of where we're at. Our levels are kind of the low end of where RVIA is at, similar to where we were last year. So, we're comfortable with where we're at and what we're seeing from the production levels that kind of match up with where we think retail is coming through.

Alex Perry

Perfect. That's all incredibly helpful. Best of luck going forward.

Jeff Rodino

Thank you, Alex.

Operator

Thank you. Our next question comes from the line of Alice Wycklendt with Baird. Please proceed with your question.

Alice Wycklendt

Yeah. Thanks, guys. Just want to maybe focus on the manufacturing housing side for a moment here. Really nice content performance, I think up 4% maybe to a record level. What are some of the drivers there? And maybe what's your outlook for that metric through the balance of the year?

Jeff Rodino

Yeah. This is Jeff. Yeah, we've been really excited with what our MH team has been able to do on that side to bring that content level up. They've seen several opportunities with different products -- product categories to give them the opportunity to do that. I think we did lighten where we thought MH was going to be up 10% to 15% down to kind of that 5% to high-single digits. But I think that we're really well positioned. That business is very scalable and ready to run with the demand that the MH market can bring us. Again, we think that there's such a huge gap in affordable housing out there. And as our MH OEMs continue to fine-tune their product and really work with their customers to get that product out there, I think it's -- there's a lot of upside.

Alice Wycklendt

Great. And then maybe can you just review what you're seeing out in the M&A pipeline today?

Andy Nemeth

Hey, Alice. This is Andy. I think we're feeling really good about what's out there in the M&A pipeline. We're constantly cultivating that pipeline internally, so we're not necessarily relying on outside sources to bring us deals. And as I look especially at the back half of the year, first half and first quarter, we were really focused on being in a position to be able to be flexible and nimble with our customers in the event we saw an inflection point. We invested in inventory in Q4. As we've kind of seen this subside a little bit, our inventory turns are up in Q1, which we're back to again being aggressive on our working capital management. I look at the back half of the year and the strength of the cash flows that we're going to be able to drive in the back half of the year and really look to get opportunistic in the back half as it relates to deploying capital on M&A. So, I'm optimistic about what's out there. And again, I think we want to continue to execute on our strategic plan based on the strength of the cash flows that we have.

Alice Wycklendt

Thanks. That's it for me.

Andy Nemeth

Thank you.

Operator

Thank you. Our next question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Daniel Moore

Thank you. Appreciate the color, obviously, on the end markets and some of the cost reduction initiatives. I'm curious, just in terms of managing cost and capacity, does your revised margin guidance include steps to reduce capacity? You talked about, obviously, some of the variable costs and some fixed cost reduction. But I'm wondering if you're holding on to capacity for now, at least assuming the downturn or softness is relatively short term?

Andy Nemeth

Dan, this is Andy. We're definitely maintaining a thoughtful long-term vision as it relates to capacity and our ability to scale. That is absolutely a value proposition that we've got with our customers is the ability to move quickly with them. And so, we are doing some consolidations. I will tell you that, but thoughtful consolidations without impacting the integrity of the business model and our ability to scale. So, yes, we're making cost reductions. Yes, we're doing some facility consolidations where it makes sense but maintaining capacity to be able to support any inflection point that our customers have.

Daniel Moore

That's helpful, Andy. And a follow-up on the MH side. What are you hearing from your customers in this environment? Do they expect to be able to continue or accelerate share gains versus site-built? I know you tempered the outlook, very understandably so. But thinking more long term, are you seeing builder developers, et cetera, opt for MH in an increasing fashion?

Andy Nemeth

We still see the same value proposition out there as it relates to affordable housing and what the MH industry can bring, especially with the increased value proposition and the quality of the products that are going into MH today. So, we still believe in that model. And while we're going through, like I said, a little short-term inflection here, I don't think we've seen any change in the estimated impact that MH could have or the opportunity potential for share gains, especially in the stick-built housing market. There definitely is a shortage. And certainly, when we look at kind of the contractors out there and the limited contractors, we definitely think MH still has a value proposition. So, we've not changed our thought process on MH at this point.

Daniel Moore

Okay. That's helpful. Lastly, just Powersports, Sportech. Talk about in a slightly more challenging economic backdrop, what that means for share gains. You talked about cab enclosures. You're continuing to see OEMs and consumers opt for those. Is the share gain opportunity similar? Is it accelerating? Is it a little softer in this environment? How do we think about it? Thanks again.

Andy Nemeth

Yeah. Two things. One, the utility sector, which is really where the focus has been and one of the things that, again, we got our arms around as it relates to the Sportech product has been much more resilient than the rec side of the business. But the really encouraging thing that we're seeing today is the take rate on enclosures and the units that are being produced, especially in the side-by-side market. So, we're seeing more and more units being equipped with enclosures. And so, take rate continues to go up despite what we're seeing in the overall market. So, we're still optimistic and really like what Sportech is doing.

Daniel Moore

Alright. Super helpful. Thanks again.

Andy Nemeth

Thank you.

Operator

Thank you. And our next question comes from the line of Scott Stember with ROTH MKM. Please proceed with your question.

Scott Stember

Good morning, guys, and thanks for taking my questions , as well. Going back to the Manufactured Housing piece. Obviously, you guys have good reason to be conservative to bring your forecast down. But have you -- and I know this isn't really the prime selling season yet, but have you actually heard of demand actually starting to fall off and reversing some of the previous gains? Or are we just being a little bit more conservative now?

Andy Nemeth

I think in -- with where we're at today in the short-term view, I think the OEMs are being very thoughtful to manage production levels to maintain their backlogs. And so, I think it's just -- I don't want to say it's all caution, but I would just say that as we look across the space, whether it's RV, Marine, MH, Powersports, just the thoughtfulness in managing dealer inventories and the discipline that's out there is very strong. And so, looking at MH, we've seen a little bit of production to kind of pull back just a little bit in this environment. But it's really to maintain the backlogs that are out there and consistent production levels. So, I think it's too early to say whether we're there or we're not as it relates to the overall season and whether we've missed it. But right now, just as of today, we're seeing thoughtfulness as it relates to retail wholesale production management.

Scott Stember

Got it. And then looking at aftermarket and RecPro in particular, I know we've talked about cross-selling opportunities with Powersports and Marine. But are there opportunities for cross-selling into the housing side, namely MH?

Jeff Rodino

Scott, this is Jeff. Not particularly. And if there were some, we'd look into that. That's certainly not our focus right now. Our focus is squarely on the RV, Marine, and Powersports piece of the business when it comes to the aftermarket.

Scott Stember

Got it. And then last question just about aftermarket in total. Could you just frame out how big the business is compared to the size of the company?

Andy Roeder

Yeah. Scott, in 2024, aftermarket was about 8% of revenues. With the addition of RecPro, we're looking for that to uptick into double digits for 2025.

Scott Stember

Okay. That's all I have. Thanks, guys.

Andy Nemeth

Thanks, Scott.

Jeff Rodino

Thanks, Scott.

Operator

Thank you. And ladies and gentlemen, I will turn it over to Andy Nemeth for closing remarks.

Andy Nemeth

Thank you. Once again, I just really want to thank the entire Patrick team and all of our customers and partners for all the efforts, especially in this volatile environment. We've got a fabulous team, really focused on continuing to drive our business model. We've got a tremendous culture and a team that is very much aligned to that. I think as we look at this volatile environment, we look at this as an opportunity to further embed our value proposition with our customers, and we're really focused on that. We have the balance sheet. We've got liquidity. We've got the opportunity, again, to stay on offense in this type of environment to really, again, partner with our customers and bring value to the space as a whole.

So again, we're looking forward to, again, what we see in for the long term of the industry. We're going to continue to manage our business according to the revenue stream, and we've got a playbook to operate under many scenarios. So, we have the tools that we need to manage this business in the short term but still stay focused on the long term. So, again, I feel excited about where we're at today and the opportunities that are in front of us for the long term. So, with that, we will sign off and say thank you very much for joining us on the call. We look forward to talking to you in our second quarter.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. Thank you for participating and you may now disconnect.

Editor

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