First Quarter 2024 Earnings Conference Call
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<u>Presenters</u>
Steve O'Hara, Vice President of Investor Relations
Andy Nemeth, CEO
Jeff Rodino, President – RV
Andy Roeder, CFO

<u>Q&A Participants</u>
Daniel Moore – CJS Securities
Michael Swartz – Truist
Noah Zatzkin – KeyBanc
Craig Kennison – Robert W. Baird
Brandon Rollé – D.A. Davidson
Tristan Thomas-Martin – BMO
Alex Perry – B of A Securities
Scott Stember – Roth MKM

Operator
Good morning, ladies and gentlemen, and welcome to Patrick Industries First Quarter 2024 Earnings Conference Call. My name is Daryl 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 "*" "0" 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. Kip Ellis, President—Powersports Technology and Housing, and Matt Filer, SVP—Finance, is also here for Q&A.
Certain statements made in today's conference call regarding Patrick Industries and its operations may be considered forward-looking statements under the securities laws.

There are a number of factors, many of which are beyond the company's control, which could cause the actual results and events to differ materially from those described in the forward-looking statements. These factors are identified in our press releases, our Form 10-K for the year ended 2023 and in our other filings with the Securities and Exchange Commission. We undertake no obligation to update these statements to reflect circumstances or events that occur after the date the forward-looking statements are made. 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.

As we finished the first quarter of the 2024 fiscal year, Patrick remains in a position of strength as a result of the work our team has put in day in and day out and the strong performance and results that we have generated while diligently managing our business and balance sheet. Our success would not be possible without the dedication of our incredible team members, and I thank them for their tremendous efforts and focus. Our family of trusted, independent brands building better component solutions is guiding our model as we strive to be the supplier of choice in the outdoor enthusiast and housing markets.

Our accretive growth strategy has evolved over the years through our team's relentless pursuit of great customer service and building innovative high-quality product solutions. We have become a key supplier to RV, marine, manufactured housing, and now Powersports OEMs alike and we believe our ability to scale and adapt to our customers' needs is unmatched. As we have further refined our business objectives we identified and executed on the appeal of a more diversified end market ecosystem, which is proving resilient, especially in these uncertain market conditions. Our first quarter acquisition of Sportech further solidifies a foundation in the powersports industry and serves as another platform for future strategic and organic growth. We are excited by the promising potential in this space, particularly in the utility side-by-side segment on which Sportech focuses.

The Sportech acquisition brings in a team aligned with our purpose as passionate outdoor enthusiasts dedicated to creating highly engineered innovative products in close partnership with our valued OEM customers. We are thrilled with the initiatives the Patrick and Sportech teams have already set in motion and the future growth potential we see ahead of us.

Examples of our drive to immediately deliver synergies post-closing involves our team at Rockford Fosgate hosting Sportech to showcase the benefits of being connected to the Patrick ecosystem. And how our businesses are able to collaboratively leverage their processes and expertise, bringing additional value to their respective customers. We also invited our key plastics, metals, and harness and dash businesses to Sportech for a brainstorming session, including a production line walk-through to identify avenues of opportunity between business units, their best practices, and potential areas for collaboration including logistics, sourcing, and material synergies.

While collaboration remains a crucial tenet of our success through our business model, we strive to maintain each business's individuality and passion as they drive forward, keeping the entrepreneurial spirit alive. We believe this strategy is key to our future success and empowers our businesses and the collective Patrick family to achieve new heights. We continue to seek out entrepreneurial businesses with strong, culturally aligned leadership teams, solid organic growth prospects, and accretive margins.

Our ability to execute at the operational level at our brands exemplifies our balance sheet and working capital management, for which we also drive accountability. Our team has done a great job of working with our customer partners to manage our inventories and ensure we also remain focused on delivering strong cash flows while maintaining a disciplined leverage position. Our inventories are balanced and well maintained, and our leverage position has already improved from just two months ago following the Sportech acquisition, the largest acquisition in the company's history.

Now moving on to our financial results. Our first quarter revenues increased 4% to $933 million. And on a trailing 12-month basis, our consolidated revenues were approximately $3.5 billion. Our net income in the first quarter improved 16% to $35 million, and net income per diluted share was $1.59. Excluding acquisition transaction costs and purchase accounting adjustments, our first quarter adjusted net income was $39 million and adjusted diluted earnings per share grew 31% to $1.79.

Our team continues to anticipate and adjust to market and macroeconomic forces through the management of our highly variable cost structure and our model performed well during a seasonally slow period, also as a result of acquisitions completed over the past year, operational efficiencies gained through automation and better throughput, and our diversification among other items, as shown by our continued solid margin performance. Excluding acquisition transaction costs and purchase accounting adjustments in both periods, operating margin improved 70 basis points to 7.0% and adjusted EBITDA margin increased 110 basis points to 11.9% in the quarter.

On an administrative level, I'd like to welcome Andy Roeder, our new CFO, who joined us in March. Andy has tremendous experience in the outdoor enthusiast space and brings his impressive skills and expertise into the Patrick family. We're pleased to have Andy on our team supporting our business's growth objectives, while ensuring our balance sheet and financial foundation remains strong.

I'd also like to thank Matt Filer, who filled the interim CFO role with confidence and execution and helped us successfully deliver on our operational and strategic plans. Matt has resumed his role as Senior Vice President of Finance, and we look forward to his continued contributions.
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. Good morning, everyone.

We continue to experience dynamic conditions across all of our primary end markets. RV and MH trends have improved modestly after reaching what we believe was the bottom of the cycle in

2023. While shipments have improved in the market, interest rates continue to negatively impact demand of our end consumers and dealers across our markets as ownership and online costs remain relatively high. As a reminder, in the outdoor enthusiast space, RV has historically been first market to enter and exit economic cycles and the RV market typically precedes the recovery in Marine and Powersports.

In the first quarter, RV wholesale shipments have seen some sequential and year-over-year improvement. We expect these positive trends to continue in the near term, given the need for additional inventory in preparation for spring selling season and the coming 2025 model year change. However, the durability of positive trends will depend on retail sell-through.

Our first quarter RV revenues increased 15% to $421 million when compared to the same period in 2023 and represented 45% of consolidated revenue. RV content per unit on a TTM basis was $4,859, off by about 9% from the record level we achieved for the first quarter of 2023. On a positive note, RV content per unit on a TTM basis increased sequentially in Q1 of 2024 from Q4 of 2023.

According to the RVIA, RV wholesale unit shipments increased 9% to approximately 85,900 units from the first quarter of 2023. We currently estimate first quarter retail registrations were down approximately 14% to an estimated 73,100 units in the quarter.

Our estimates further indicate that TTM dealer inventory weeks on hand at the end of Q1 of 2024 have increased by 2 to 3 weeks to approximately 20 to 22 weeks as dealers plan for the upcoming selling season. This is well below the historical averages of approximately 26 to 30 weeks.

On the marine side of our business, OEMs have remained very disciplined in their production, which will help lessen the response time between inventory sell-through and replenishment in the eventual recovery. We expect to see our Marine business bottom out in Q2 and then begin to stabilize in Q3 and into Q4, especially as consumers and dealers await the new model year product. We believe in the long-term durability of the marine industry as outdoor enthusiasts continue to see the appeal of boating and spending time on the water with family and friends.
Our first quarter marine revenues were off 35% to $155 million representing 17% of consolidated sales. This change in sales is in line with our expectations in the quarter, especially when considering our mix towards ski-wake and pontoon. We estimate wholesale powerboat unit shipments declined 34% to approximately 38,400 units from Q1 of 2023 with estimated ski and wake and pontoon unit shipments down approximately 52% and 41%, respectively. We currently estimate first quarter retail powerboat shipments were down approximately 10% to an estimated 31,200 units.

Our estimated marine content per wholesale unit on a TTM basis was $4,049 compared to $4,433 in the same period last year. On a sequential basis, our first quarter content was roughly flat compared to the fourth quarter of 2023. It is important to note that in the prior periods, we reported both marine and powersports revenue in our marine market, impacting both our marine revenue and content per unit. The current and prior year's figures have been recalculated for revenue and content per unit to reflect these adjustments.

Our estimates indicate that the TTM dealer inventory weeks on hand at the end of Q1 of 2024 have increased approximately two to three weeks to an estimated 30 to 32 weeks. This is well below the historical average, which we estimate at 36 to 40 weeks on hand.

Our housing businesses, both MH and residential site-built demonstrated the resilience of our diversified platform and remained steady and performed well despite the headwinds in interest rates as consumers demand for affordable housing remains strong. Multifamily housing continues to experience softness while single-family housing starts have improved.

In Q1, our housing revenue was up 5% to $275 million, representing 29% of consolidated sales. In Manufactured Housing, which represents approximately 57% of our Housing revenue in the quarter, we increased the content per unit on a TTM basis by 1% to $6,422. We estimate MH wholesale unit shipments increased 13% in the quarter. Total residential housing starts for Q1 improved 1%.

As we begin reporting on Powersports business, our focus will primarily be on the side-by-side, golf cart and motorcycle sectors of the industry, and our market commentary will reflect this focus. Powersports is a broad space, and unlike our other end markets, there is no third-party source for industry-wide data on wholesale shipments. Although our focus has shifted to side-by-side space, which includes golf carts following the Sportech acquisition, we have had a presence in side-by-side and motorcycles, primarily through Rockford Fosgate's premium audio offerings. Of course, as we expand our presence in this space, the metrics we track will evolve along with our commentary to more accurately reflect our business within the industry. Ultimately, our intention is to provide business relevant insight into the markets we serve rather than providing an outlook on the broader powersports industry as a whole.

Anecdotally, powersports dealer inventory levels appear elevated, particularly in the recreation segment. However, on the utility side of the industry, demand appears to be more resilient. This, coupled with Sportech's promising backlog supports our optimism as we move into this year and beyond. The demand for creature comforts like HVAC requires the doors and enclosures Sportech manufacturers, with the potential to add audio and other high-value product solutions we produce down the road, both to the OEMs and in the aftermarket.

Our Powersport revenues were $83 million in the quarter, which represents 9% of our first quarter 2024 consolidated sales, including approximately two months of Sportech revenue, which outperformed expectations.

On the innovation front, our dedicated advanced product group, which we highlighted in the fourth quarter, is off and running and remains intensely focused on collaborating with OEM customers, evaluating best-in-class solutions two and three model years out in the RV, marine, and powersports market. We believe we are well-timed with this strategic initiative as OEMs generally focus inward on product design and evolution during periods of softer retail demand.

Two examples of our leading innovations as a testament to our progress, Patrick's brands won two innovation awards this year at the Discover Boating Miami International Boat Show in February.

TACO Marine won an innovation award for their open water internal and collapsible carbon fiber outrigger poles. Their sleek design and increased functionality results in more natural movement of bait in the water. We continue to believe both RV and boating experience can be enhanced through the use of carbon fiber products, which we have launched, along with the potential for additional applications in the broader outdoor enthusiast market.

SeaDek also won an award for their patented lighted SeaDek, which can embed RGB Lighting into their products providing additional opportunity for customization in marine flooring and padding. This lighting takes the superior traction of EVA foam decking, coaming pads, and step pads SeaDek is known for to a whole new level of comfort and visual appeal.

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

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

First, I'd like to thank Andy, Jeff, Matt, and the rest of the team here for such a warm welcome. I'm thrilled to become part of the Patrick family at such an exciting time, and I'm ready to work with the stellar team here, maintaining our solid financial foundation and supporting Patrick's continued drive toward profitable organic and strategic growth.

Now on to our financial results.

Our consolidated first quarter net sales increased 4% and to $933 million, driven by 9% growth in RV wholesale shipments, an estimated 13% increase in manufactured housing wholesale shipments, and our acquisition of Sportech which together more than offset the impact of an estimated 34% decrease in marine wholesale powerboat unit shipments.

Gross margin increased 30 basis points to 21.9%, which was the result of our strategic diversification, acquisitions, larger mix of higher-engineered products and cost reduction initiatives, coupled with our investments in automation and continuous improvement initiatives. The first quarter gross margin includes 10 basis points of non-cash purchase accounting charges from the inventory step-up related to the Sportech acquisition.

SG&A expenses increased $3 million, or 3% to $85 million in the first quarter of 2024, but decreased 10 basis points as a percent of sales. The year-over-year increase in expense reflects transaction costs related to the Sportech acquisition. Excluding the non-recurring acquisition transaction costs associated with the Sportech acquisition, SG&A expenses as a percent of sales decreased 60 basis points versus the first quarter of 2023.

Operating expenses were $146 million in the quarter compared to $138 million last year, primarily due to higher amortization costs and the impact of acquisition-related expenses on SG&A.

Operating income grew $3 million to $59 million while operating margin improved 20 basis points to 6.4%. Excluding acquisition transaction costs and purchase accounting adjustments related to acquisitions, adjusted operating margin improved 70 basis points to 7% in the first quarter. The improvement in operating margin was driven by higher revenue from our RV and Housing businesses coupled with the acquisition of Sportech among other factors previously discussed. These positive factors, while partially offset by the impact of lower marine revenue and higher amortization expense, again reflect the benefits of our strategic diversification.

Net income increased 16% to $35 million, which equates to $1.59 per diluted share. Adjusting for the acquisition transaction costs and purchase accounting adjustments in both periods, adjusted net income improved 29% to $39 million or $1.79 per share.

Our reported and adjusted EPS for the first quarter of 2024 include approximately $0.01 per share in additional accounting related dilution from our 2028 convertible notes. We have hedges in place which are expected to reduce or eliminate any potential dilution of 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 anti-dilutive and therefore cannot be included when reporting earnings per share.

Adjusted EBITDA grew 14% to $111 million versus $98 million last year. Adjusted EBITDA margin expanded 110 basis points to 11.9% for the first quarter of 2024.

Our overall effective tax rate was 10.6% for the first quarter compared to 20.1% in the prior year. The decrease in the tax rate in the first quarter was due to the tax benefit related to the vesting of share-based awards and the increase in Patrick's stock price. We expect our effective tax rate to be approximately 22%-23% for the full year, implying 25% to 26% for the next three quarters.

Looking at cash flows. Cash provided by operations for the first three months of 2024 was approximately $35 million compared to an outflow of approximately $1 million in the prior year period, primarily due to working capital management and stronger net income.

This quarter, purchases of property, plant, and equipment were $15 million, reflecting maintenance capex, automation projects, and select facility improvements. We remain committed to allocating capital to our automation initiatives as we reinforce innovation, efficiencies, and long-term value for our customers and stakeholders. We estimate our 2024 capital expenditures will total $70-$80 million.

Our goal is a disciplined capital allocation strategy, and we continue to evaluate possible organic growth initiatives while maintaining a robust acquisition pipeline. We plan to continue to assess these growth initiatives while maintaining a strong balance sheet with ample liquidity. Our net leverage at the end of the quarter was 2.8x, down from 2.9x on a pro forma basis at the closing of Sportech in January.

During the quarter, we generated $20 million of free cash flow. For the trailing 12-month period, we generated $391 million of free cash flow compared to $352 million for the same period last year.

At the end of the first quarter, our total net liquidity was $413 million comprised of $18 million of cash on hand and unused capacity on our revolving credit facility of $395 million.

With no major debt maturities until 2027, we continue to have the balance sheet strength, flexibility and liquidity to remain on offense and assess the potential to seize profitable strategic growth opportunities as they arise.

We returned $13 million in the form of dividends during the quarter. We will remain opportunistic on share repurchases and have $78 million left authorized under our current plan at the end of the first quarter.

Moving on to our end market outlook. We continue to expect the current interest rate environment to negatively impact consumer demand and dealers' willingness to hold inventory during the year.

Based on recent trends, we estimate full-year RV wholesale unit shipments will approximate 320,000 to 340,000 units as dealers remain cautious about the carrying cost of inventory in this rate environment.

We currently expect full-year RV retail shipments to be down approximately 5% to 10%, implying approximately 350,000 units at the midpoint.

In our Marine market, we estimate 2024 total industry retail will be down 5% to 10% and wholesale units for our overall product mix will be down 10% to 15%.

In our Powersports end market on a pro forma basis including Sportech our full year 2023 revenue was $385 million, and we estimate powersports unit shipments in our product categories will be flat in 2024. For modeling purposes, we expect to gain organic content in the mid-single digits.

On the Housing side of our business, we estimate MH wholesale unit shipments will be up 5% to 10% for 2024 with retail sales absorbing available wholesale production on a real-time basis.

In our residential housing end market, we estimate 2024 new housing starts will be flat to up 5% versus 2023.

Given the current end market outlook we've outlined, we estimate our 2024 operating margin will improve by 30 to 50 basis points on an adjusted basis versus 2023.

We estimate our full-year 2024 operating cash flows will be between $390 million and $410 million, implying free cash flow of $310 million or more based on our CapEx estimates. 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 “*” “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*” “2” to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the “*” keys. One moment, please while we poll for your questions. Our first questions come from the line of Mike Swartz with Truist Securities. Please proceed with your questions.

Michael Swartz
Hey, guys. Good morning. Just maybe starting out on the outlook. I think one of the biggest changes versus maybe what you talked about a couple of months ago was just on the marine side. So maybe, I guess, just frame up from a wholesale shipment perspective maybe how you're thinking about the year now versus prior. Is it deeper cuts in the first half, second half, kind of unchanged? Or just maybe any guidelines around how you're thinking about that.

Andy Nemeth
Sure, Mike. This is Andy, Andy Nemeth. As we've looked at marine, and really looking across the industry sector in total, we look at our mix of business as kind of geared towards higher end and higher-engineered product lines with some really strong presentation and concentration in the ski-and-wake sector as well as the pontoon sector, you know, we looked at that model and we're seeing dealers and OEMs alike remain very, very disciplined.

And so, we felt that it was prudent to kind of pull back just a little bit, especially given what we've seen so far. I think we noted a greater than 50% decline in ski-and-wake and greater than 40% decline in pontoon in the first quarter. And we just see that discipline continuing through the second quarter, especially when we look at kind of when the new model-year is going to come through, with some stabilization expected in the back half. So, we just pulled things back just a little bit, especially as it relates to our industry-specific concentration.

Michael Swartz

And the thought would be that the rate of decline you saw in some of those key categories in the first quarter, that kind of continues into the second quarter, is the thought on a year-over-year basis? Or does it get better on a year-over-year basis? Because I think most of the destocking was--or restocking was done in the first quarter last year.

Andy Nemeth
Yeah. We still think that kind of Q1 run rates are going to continue through Q2 at this point in time. So that's really kind of driving that model.

Michael Swartz
Okay. That's helpful. And then on the operating margin outlook for the year, you've reiterated that. Any thoughts on just how that should kind of trend or play out through the year? I think seasonally, the second quarter has the highest margin, and it kind of drops off over that time period over the rest of the year. But given the comments on marine, which is one of your higher margin businesses, would that be expected to look any different this year than maybe years prior?

Andy Nemeth
So, we still think we're going to see sequential margin improvement, and I'm talking quarter over the prior year quarter in each of our quarters for 2024. And our business is well diversified as we've looked at it. Our Marine business has a strong margin component. It's highly engineered, highly innovative. And so just with some of the--as we talked about the mix, pulling back that segment a little bit with some of the strength that we've seen offset with our Housing business in particular, we just felt like, again, we want to keep it at that 30 to 50 bps of improvement.
I think if we see some uptick in the back half as it relates to kind of that Marine business, we would expect to see some margin lift on that. But overall, we feel again pretty consistent that we will see some improvement each quarter over the prior year's quarter in our financials.

Michael Swartz
Okay. That's super helpful. And then just one last one for me quickly. Just the revenue growth, the components of the quarter on a year-over-year basis, how much was, I guess, organic volume, pricing, M&A, all that good stuff?

Andy Roeder
Sure, Mike. This is Andy Roeder. Good morning. Yeah, for Q1, overall industry was down 3%. Acquisition growth was up 5% and organic was up 2%. And that organic is broken down by pricing was down 3% and share content was up 4%.

Michael Swartz
Okay, great. That's awesome. Thank you.

Andy Roeder
Yep.

Operator
Thank you. Our next questions come from the line of Scott Stember with ROTH MKM. Please proceed with your questions.

Scott Stember
Good morning, guys, and thanks for taking my questions.

Andy Nemeth
Good morning.

Scott Stember
I imagine that, right now, you guys are having discussions on the RV side with the OEMs on where their pricing is going to be looking. Just got off a call this morning with one of the bigger dealers. It sounds like they're not expecting to see a material change in pricing from '24 to '25. What are you guys hearing on your end? And how should we look at that from a content standpoint throughout the balance of the year?

Jeff Rodino
Yes, Scott, this is Jeff. As we go into the model year, every year, we're--we go through and price our product appropriately going into the model year. And we've seen a lot of our commodities flatten out. As we've talked in the past, we do pass along pricing on a real-time basis with commodities and where our inventories stand. And we've seen a lot of those flatten out over the fourth quarter and into the first quarter of this year.

So, there's some up. There's some down. It's kind of, I would say, almost flat. In particular to what you're saying about the dealer earlier, thinking they're going to be flat, we're seeing the same from our commodities and the pricing that we're putting out there.

Scott Stember
Got it. And then looking into the powersports side of it, if we could just take a little bit of a deeper dive. I know you've talked about how you guys are pretty much aligned heavily with the side-by-side utility piece. But can you maybe just overall, just trying to get a sense of how much of the powersports business would be considered mission-critical types of things versus, or more importantly, maybe just utility, utility or mission-critical. Just trying to get a sense of how this--we should expect this business to perform in the event that the industry really tapers off a lot this year.

Andy Nemeth
Scott, as we look at powersports, in particular in our spread across the powersports market, which we talked about is going to include the side-by-side, utility primarily, golf carts and motorcycles. When you're thinking about utility, we again expect to see--we're seeing our content rise in that sector on the units that we're going into. You know, market right now that when you look at the recreational side it's a little bit down, but as we look at the model overall

and the opportunities to continue to drive organic content amongst our product categories and bring solutions to those customers, we expect to continue to be very aggressive on taking market share there and gaining content. So overall, while the market is in a little bit of a volatile place today, if you just look at kind of the recreation versus utility, we're well aligned with utility.

Scott Stember
Got it. And then just last question. There was a comment about expectations for operating margin growth this year. Did I hear 50 basis points? I just want to make sure I heard correctly.

Andy Nemeth
30 to 50 basis points.

Scott Stember
Got it. All right, that's all I have. Thank you.

Andy Nemeth
Thank you.

Operator
Thank you. Our next questions come from the line of Noah Zatzkin with KeyBanc Capital Markets. Please proceed with your questions.

Noah Zatzkin
Hi. Thanks for taking my questions. I guess just quick on the RV industry, I noticed you guys kind of ticked down your expectations slightly on the wholesale side. So just wondering relative to a few months ago, what may have led to that? Thanks.

Jeff Rodino
Yeah. Noah, this is Jeff. As we've gotten into 2024, we've seen production rates from the OEMs pretty stable through the first quarter and into the second quarter. We believe that on our model, we were looking at 330K to 350K prior. Interest rates not going down or at least the Fed saying that they're probably not going to go down as soon as we thought, I think is going to continue to constrain dealers from wanting to bring inventory in at those higher levels, especially in the second half of the year, where we thought that maybe with some interest rate relief, we might see a little bit of that.

So, we just moved it a tick, not too much. We also note that going into the model change, the OEMs are being very, very disciplined with their production levels. So, as we get into June, they'll start to ramp down the 2024 production and start to get into the 2025 starting in July. So, we see a little bit of fall off there over those--over that time period. So overall, not much of a change, but we're just being a little bit cautious on it.

Noah Zatzkin

Great. And maybe just kind of a two-parter. Maybe if you could just kind of talk about how Sportech's performing relative to your expectations early on, as well as kind of appetite for other M&A in the nearer term. Thanks.

Andy Nemeth
Sure, Noah. This is Andy. Sportech is performing better than expectations so far. We're really pleased with not only the team's performance, but the cultural fit, the alignment, the collaboration we're seeing today. As we noted, we're really striving to execute on synergies very, very quickly and see a ton of runway there. So very pleased with Sportech, and it is performing better than expectations.

I think as we look at our appetite for acquisitions, as we noted as well, we are in a position of strength from our perspective. We've got a ton of liquidity. We're managing our cash flows extremely well. Our team is extremely disciplined and doing a fabulous job of working with our customers to manage our inventories and be very thoughtful about that.

So, I would say our appetite, again, is a position of strength and to be on offense, and we are actively looking at the acquisition pipeline, continuing to cultivate acquisitions organically, and again, really prioritizing what could make sense at what point in time. But we are actively looking at acquisitions right now.

Noah Zatzkin
Great. Thank you.

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

Tristan Thomas-Martin
Good morning. Can you just talk to how RV content specifically trended in the quarter, maybe not on a trailing 12-month basis, both year-over-year and then quarter-over-quarter? Just trying to square the 9% shipment growth to your revenue being up 15%.

Jeff Rodino
Yes, Tristan, this is Jeff. Sequentially, RV was up about 1% from the fourth quarter of 2023 to the first quarter. So, we are seeing that, and we believe that trend will continue through the year.

Tristan Thomas-Martin
Okay. I guess just kind of--the delta of how you outperformed the industry so much on a shipment standpoint, given there seems to kind of the ongoing ASP pressure.

Andy Nemeth

Yeah. I would tell you, Tristan, over the last 15 months, our team has been really active in the marketplace and picking up business, again, working with our customers, really making sure that we're in the best position to be able to take care of them, both on the quality and service side, but as well on the pricing side. And as we've, again, managed our inventories but also worked to push our vendors to bring commodity costs down as well.

We are--as Jeff mentioned, we're really active in pushing those prices through to our customers. So, we maintain a great balance of pricing and quality and service with the customer base and as a result, our RV teams have done a spectacular job of picking up more organic content in the RV space.

Tristan Thomas-Martin
Okay. And then just one more, 1Q RV retail. To get to your, I believe it was down 14%, that implies a pretty big deceleration in March. Am I thinking about that the right way?

Andy Nemeth
Say it again. I really want to understand your question.

Tristan Thomas-Martin
Yeah. So, RV retail, I think you called out down 14%. But to get there, that would imply March was down more than both January and February year-over-year. Am I missing anything there?

Andy Nemeth
At this point with the estimates, we would tell you, it's down a little bit more than January and February, correct.

Tristan Thomas-Martin
Okay. Thank you.

Operator
Thank you. Our next questions come from the line of Craig Kennison with Baird. Please proceed with your questions.

Craig Kennison
Hey, good morning. Thanks for taking my questions. You've addressed many of them, but maybe a follow-on that last question on the month of March. Any color on April trends in terms of RV demand as we continue to see high interest rates impact the consumer?

Jeff Rodino
Hey, Craig. This is Jeff. From our perspective and what we look at are the production levels, I would tell you that through April, they've stayed pretty consistent with what we've seen so far this year. Like I mentioned earlier, looking ahead to May a little bit, we do see a little bit of time being taken off over the Memorial Day holiday. So, we'll lose a little bit of production level there. But overall, the weekly levels of our customers have stayed pretty consistent.

Craig Kennison
Okay, thanks. Then on the margin front, 30 to 50 basis points. I'm wondering if you can just share any color on the puts and takes to getting there. I know your marine business tends to be higher margin. You've got Sportech rolling through. I'm just wondering if you can help us understand how you get to 30 to 50 basis points with all the ups and downs in your individual businesses.

Andy Nemeth
Craig, this is Andy. There are definitely a lot of puts and takes in the model. When you look at the diversified business model and what we're doing there, I think when you look at the housing business, which is a highly leverageable business given the low fixed cost structure that's there, that team has done a fantastic job as well really across our organization when we think about the team's performance.

They've done a great job of managing that business, but we've also picked up business there on the housing side, in the MH side of the business. So, leveraging that model is certainly supporting the margin profile and really kind of helping offset what we're seeing as it relates to a little bit worse performance on the marine side of the business, just given what we're seeing in our mix with the products that we're selling through. It is a higher-engineered product, a higher-priced product. And so yeah, that does have some impact on it. But when I think about just the puts and takes. There's a lot that goes into our model. But when you look at the industries and the industry performance, it's allowing us to be very, very resilient. And then when you look at the acquisitions that we've done, and I'm going to say over the course of the last 24 to 36 months, we're buying margin-accretive businesses that are supporting the model as well.

When we look at that margin resilience that we're able to produce it's a combination of a lot of things with the diversification, the acquisition strategy, the team’s performance, the automation initiatives that we've put in place to increase throughput and increase quality. And then again, just the team's execution in the marketplace and ability to really drive customer value as we strive to be that component solutions provider as a go-to for our customers have all played into the margin profile.

Craig Kennison
Thanks.

Andy Nemeth
Thank you.

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

Dan Moore

Thank you. Good morning. And Andy, good morning. Welcome to you. Covered a lot of ground. Excuse me. But just on the content side, content per RV ticked slightly higher in Q1. And Marine, I think you said flat sequentially. You think we found the bottom from which we can grow on either or both sides, or are consumers likely to continue to opt for more entry-level units that might keep some pressure on that metric?

Andy Nemeth
Hey, Dan. Andy Nemeth. I think as we look at content today, we feel like we have bottomed in general. There may be a few small puts and takes here. But overall, we feel like we’ve bottomed and we would expect content to continue to go up kind of sequentially as we look at the model going forward, especially with the business that we've brought on.

I think one of the other things that we're really excited about is when you think about market conditions like this in the consumers--or I'm sorry, the customers at the OEM level, there's a higher concentration on new innovations and product development, and we're actively and aggressively pursuing a lot of different innovations out there in the product space today.

So when we look at content and where we sit today kind of bouncing along the bottom with some uptick with business that we brought on, we get pretty excited about where we think we can go once the market does inflect, especially with a lot of the new product solutions that we're bringing to market and working with our customers on not only current model-year out but two, three-year models out, as we've mentioned. So, our expectation is--the long answer to your question, but we expect content to sequentially continue to go up. We do believe it's bottomed.

Dan Moore
Very helpful. And on Sportech and Powersports more generally, you've had Sportech under the umbrella for a couple of months now. Just how would you characterize the opportunities to drive content over the next few years relative to your initial expectations? You described some of those cross-selling or internal sales and initiatives that--or meetings that you've already had taken place, but just talk about where you see that opportunity going.

Andy Nemeth
Yeah. We definitely are excited about the opportunity that exists there with that team's innovation. Again, we talk about advanced products. They've been doing that for a while as well. And so you look at some of the combinations of products that we can bring to market in alignment with what they're delivering today as a product solution and a very sticky product solution, we think that there's a lot of opportunity to bring additional value with our product lines in incorporating those into, again, a higher value-added product for the customer base, for that enthusiast space that we think can be really compelling for the end consumer. So, I would say our expectations are at or better than kind of what we anticipated.

Dan Moore

Great. And lastly, it does sound like M&A could be on the table given the strong cash flow outlook that you just reiterated. Talk about your capital allocation priorities for the next 12 months, debt paydown versus M&A versus maybe potential buybacks opportunistically. Thanks again.

Andy Nemeth
Yeah, sure. So, I think as we look at capital allocation, we're going to stay focused on making sure that we're reinvesting in the business. We're going to continue to pursue automation initiatives that increase throughput and quality. That's been very successful from our perspective, so we're going to continue to deploy capital there. We're going to remain opportunistic on the buyback side of the business.

And we've always got a grid in place as it relates to a marker that we will execute upon based on the return model that we've put forth. So, we're always actively looking at that. Whether or not we execute in a given quarter, we do--we are very actively monitoring the buyback.

And then on the acquisition front, for sure, we're excited about the pipeline that exists out there today. We've got the liquidity. We've got the capital structure to be able to support a continued acquisition profile, especially as we look at our leverage profile as well, which we've been able to deliver upon in bringing that down immediately following Sportech and expect to continue to do so. So, I think we remain opportunistic and as we've mentioned on offense as it relates to acquisitions and want to continue to actively pursue them.

Dan Moore
Great. Thank you, again.

Andy Nemeth
Thank you.

Operator
Thank you. Our next questions come from the line of Brandon Rollé with D.A. Davidson. Please proceed with your questions.

Brandon Rollé
Thank you. Thank you for taking my questions. First, just on Sportech, I think you had mentioned expectations for wholesale shipments this year to be flat. What gives you confidence shipments can be flat year-over-year given the stated dealer inventories and also the industry lapping a very strong channel filled year in 2023?

Andy Nemeth
Sure, Brandon. This is Andy Nemeth. As we look at Sportech, again, the utility sector is where Sportech is primarily focused. And when we look at the combination of demand that exists there today, inventory levels in the channel that we see in the utility side of the business and then the backlog that exists at Sportech, that's what gives us kind of our confidence as it relates to the stability of that business.

So again, we see that. That was one of the things that we looked at as we kind of pursued Sportech as well and gain confidence on, but that's really driving that. That utility sector has a solid demand profile to it and then that coupled with the backlog and confidence in Sportech's performance.

Brandon Rollé
Okay. Great. And then just one other question. I think currently, over the past couple of months, the model year '25 bidding process within the RV industry has been going on. Could you comment on the state of competition? Any increased competition or any potential--it seems like OEMs are looking to get prices lower given affordability issues within the industry and elevated interest rates. Any commentary on the model year '25 bidding process? Thank you.

Jeff Rodino
Yeah, Brandon, this is Jeff. Every year, we kind of go through the same bidding process. We have competition in every one of the product categories. And there is always competition out there. We're obviously working to be kind of best-in-class in all of our product categories, making sure that we're hitting on our automation, our efficiencies, as well as pushing our vendors to pass along the pricing so we can get that to our customers. So, we're being aggressive out there where we can be and pushing that. But certainly, we're always dealing with competition. We've got competition in every one of the product lines.

Brandon Rollé
Great. Thank you.

Operator
Thank you. As a reminder, if you would like to ask a question, please press "*" "1" on your telephone keypad. Our next questions come from the line of Alex Perry with Bank of America. Please proceed with your questions.

Alex Perry
Hi. Thanks for taking my questions here. I guess just first, any more color you can give on the sort of expectations for whether it's Sportech or the Powersport segment should contribute for the year? I guess, specifically, any color you can give on sort of the phasing and any seasonality we should be thinking about with the business as we build our models up. Thanks.

Andy Nemeth
Yeah. This is Andy. I think as we look at kind of seasonality, we expect kind of existing run rates or current run rates that we're seeing today. As we look at kind of overall powersports for Patrick as a whole for the year, we're estimating around $400 million of powersports revenue in that space today. So again, we feel like where we're geared, where we're focused, kind of flat market growth--let's call it flat market growth with up organic content as we continue to pick up business, but also gain content on products, especially as it relates to additional solutions that we're bringing to the table.

Alex Perry
That's really helpful. And then just my follow-up is on marine. I think you said a 2Q decline similar to 1Q. I guess as we move into the back half, what gives you the confidence that you should start to see an improvement in the marine business? Thanks.

Andy Nemeth
Sure. I think as we're looking at Marine, there is resilience at the retail level, and we do see solid traffic out there. There's a lot of interest. The marine OEMs do a fabulous job of innovating product and continuing to push the envelope as it relates to innovations in the space. So we don't believe that there is a lack of attractiveness of product out there, nor do we believe that there's a lack of demand.

Right now, as we just kind of look at where the market's at, the anticipation of the '25 model year and the new innovations that do come out in marine kind of hitting in the back half, we feel--and we also feel like inventories in the channel are in balance. We think the OEs have been extremely aggressive in managing production in alignment with the dealers. And so, there's a lot of discipline. There's still tremendous demand out there, especially for the new innovations, and we just kind of look at that model today and think that we're kind of bouncing along here on the bottom. It's been soft in the higher-concentrated components to date through Q1, and we just expect that to continue, especially with what we're seeing from a macroeconomic perspective through Q2.

So, as we look at things, again, we thought it was prudent to kind of make sure that we're looking at the market according to our mix. But overall, again, the demand is still out there, and we're seeing that resilience with certain product categories in the space. And again, that's what gives us confidence towards the back half that we'll see some stabilization.

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

Andy Nemeth
Thank you.

Operator
Thank you. Ladies and gentlemen, I will turn it back over to Andy Nemeth for closing remarks.

Andy Nemeth
Thank you. I want to end the call once again by thanking our amazing team members who have made these past 65 years as a company possible. Their leadership, tenacity, and passion for what we do is evident in the company that we are today. Patrick's ability to adapt, grow, and evolve over this time period from a manufactured housing supplier into a more diversified partner to the RV, Marine, Powersports, and Housing industries supports our goal of being the supplier of choice to the outdoor enthusiast space.

We will continue to be stewards of good business, accelerating the transformation of our company while optimizing our financial and operational health. Thank you very much for your continued support.

Operator
Thank you, ladies and gentlemen. This concludes today's teleconference. Thank you for your participation. You may now disconnect.

Editor

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