PATRICK

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

Q&A Participants
Daniel Moore – CJS Securities
Michael Swartz – Truist
Craig Kennison – Robert W. Baird
Scott Stember – Roth MKM
Noah Zatzkin – KeyBanc
Tristan Thomas-Martin – BMO

Operator
Good morning, ladies and gentlemen, and welcome to Patrick Industries' second quarter 2024 earnings conference call. My name is Rob, and I'll be your operator for today's call. At this time, all participants are in 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 now begin.

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

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

The company undertakes no obligation to publicly update any forward-looking statement whether as a result of new information, future events or otherwise. Additional factors that could cause the results to differ materially from those described in the forward-looking statements can be found in the company's annual report on Form 10-K for the year ended December 31, 2023, and the company's other filings with the Securities and Exchange Commission (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 second quarter and first half performance continue to be a reflection of the incredible dedication and commitment of our team members in our BETTER Together culture. Our diversified business model, highly variable cost structure, strong balance sheet and liquidity position in complement with our increasing focus on delivering the best customer service and innovative quality product solutions continue to put us in a position of strength as we navigate current market conditions. In both Q2 and the first half of 2024, we delivered increased revenue, operating and EBITDA margins, and earnings year-over-year despite persistent volatility in our end markets.

Our second-quarter revenues increased 10% to approximately $1.02 billion, and on a trailing twelve-month basis, our consolidated revenues were approximately $3.6 billion. Net income in the second quarter improved 13% to $48 million, with earnings per diluted share of $2.16. Our adjusted EBITDA grew by 14% to $130 million, with adjusted EBITDA margin expanding 40 basis points to 12.8%.

As we look to the back half of the year, based on our detailed analytics and recent commentary from leading OEMs in our end markets, we are now anticipating that strict inventory discipline will continue across our markets both at the OEM and dealer levels until more certainty is achieved as a result of the interest rate environment. Jeff and Andy will provide a more in-depth discussion on this later in the call, however, I want to highlight three key longer-term themes that are foundational to Patrick as we enter the second half of the year.

First, our business is more resilient and nimble, with higher potential revenue, margins, and earnings power as a result of the strategic diversification investments and cost management efforts we have made in each of our markets. For instance, in the first half of the year, stronger demand from the RV and Housing markets helped offset lower revenue from our Marine market. Furthermore, our recent expansion in the Powersports market through the margin accretive Sportech acquisition is outperforming our initial expectations and has already yielded positive results. Today, our RV business represents 44% of our total revenue, which is down from approximately 74% just ten years ago, despite the fact that RV revenue has grown at a 12% CAGR since 2014. In 2019, RV represented 55% of our total revenue, and despite RV wholesale shipments being almost 20% lower in the current TTM period, RV revenue has increased at a 5% CAGR since then.

Second, we are intentionally prioritizing near- and long-term innovation through our recently launched Advanced Product Group. This initiative is enhancing our ability to bring value-added product solutions and services to our customers across our businesses. As an example, in our Marine market, we recently began production and launched GereGlass, a premium glass windshield solution debuting in the ski and wake market. With powerboat industrywide potential, this further enhances our offering of a full suite of windshield solutions for our customers. With the incredible network of brands in our portfolio, and in alignment with our BETTER Together initiatives to synergize our product power and solutions model, our business leaders now possess better visibility and ability to communicate, collaborate, and coordinate best practices with each other across our end markets.

And third, acquisitions have been, and will continue to be a key component of our strategic growth plan. Our pipeline remains robust, and we are consistently cultivating and evaluating deals, both large and small, with the intent of continuing to execute on the model that has helped us produce our slow and steady consistent margin improvement. The acquisitions we have completed over the past 15 years have accelerated our growth and enhanced our margin profile, expanded the breadth of our product offerings to deliver full solutions, introduced us to new customers, deepened existing relationships, and brought tremendous talent to our organization.

Our resilient financial performance and prudent inventory management has enabled us to maintain a strong balance sheet. With no major debt maturities until 2027, and available liquidity of $519 million, we remain poised to allocate capital as advantageous opportunities present themselves. Our strong free cash flow generation has positioned us to reduce debt, invest in growth opportunities, all while returning cash to shareholders through dividends and opportunistic share repurchases.

In anticipation of a cautious and disciplined third and fourth quarters, and the expectation of improving tailwinds in fiscal 2025, our team will continue to aggressively control and leverage our highly variable cost structure without impacting the integrity of the business model, while supporting and servicing our customers at the highest level and retaining our ability to nimbly react to positive changes in demand.

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 noted, demand across all primary end markets remains constrained by high interest rates and inflation. OEMs continue to aggressively manage their production levels to tightly balance the level and cost of inventory in the channel. Our strategic diversification worked as intended in the first half of the year, with RV and Housing revenue growth more than offsetting declines in the Marine revenue. When combined with our team's tactical approach to managing our cost structure, these factors contributed to the year-over-year growth in revenue and earnings. As a solution supplier to the Outdoor Enthusiast and Housing markets, we recognize that we cannot directly influence consumer demand, and our team remains focused on what is in our control and will continue to actively scale our business to match. We remain well positioned to capitalize on a potential recovery given our focus on innovation, customer service and our differentiated good, better, best value proposition.

Our second quarter RV revenues were $450 million, increasing 17%, compared to the same period in 2023, and representing 44% of consolidated revenue. RV content per unit on a TTM basis was $4,966, off about 2% from the same period last year. However, for the second quarter in a row, RV content per unit on a TTM basis increased sequentially, rising 2% versus the first quarter of 2024.

RV wholesale shipments increased 7% in the quarter, with lower end towables leading the way. Motorized unit shipments were down in the quarter, and higher-priced towables increased at a modest pace. We estimate total RV retail unit shipments decreased approximately 10% in the quarter, resulting in an estimated 18 - 20 weeks on hand versus historical average of 26 - 30 weeks on hand. While current weeks on hand is well below historical levels, we believe dealers will continue to focus on destocking inventory in the third quarter until retail velocity improves or floorplan interest rates come down.

Our second-quarter Marine revenues were $158 million, off 30% from the prior year, representing 16% of consolidated sales. Our estimated marine content per wholesale unit on a TTM basis was $3,935, down 10% from the same period last year, and approximately 2% from the first quarter of 2024, primarily reflecting pricing given back to customers and product mix. As we've discussed, we are more heavily indexed toward higher-engineered ski and wake and pontoon categories, which we estimate were down approximately 57% and 36%, respectively in the second quarter, and 55% and 39%, respectively, year to date. As a reminder, prior to the first quarter, we reported Powersports revenue in our Marine market. We have restated our content per unit numbers and the current and prior year's figures to reflect these adjustments. For modeling purposes, you can find our 2023 revenues by end market in our earnings slide deck.

We estimate in the quarter, retail and wholesale powerboat unit shipments were 68,400 and 39,300 units, respectively, implying an inventory reduction of approximately 29,100 units. We estimate weeks-on-hand dropped to 23 - 25 weeks at the end of the quarter, which is well below the historical average of 36 - 40 weeks.

While interest rates remain near-term headwinds, we are encouraged by the incredible discipline exhibited by our partners in our RV and Marine end markets, which we believe will accelerate the need to restock when demand recovers.

As noted, partially offsetting the decline in our Marine-related businesses, our Housing revenue was up 11% to $305 million, representing 30% of consolidated sales. In Manufactured Housing, which represents approximately 57% of our Housing revenue in the quarter, our estimated content per unit on a TTM basis increased 1% year-over-year to $6,427 and was up slightly sequentially.

Demand for affordable housing remains strong, while supply is still limited. High interest rates continue to impact consumers' ability to purchase and willingness to sell, leading to a low velocity, but stable, housing market. MH shipments increased 19% in the quarter and total housing starts declined 7%, with single-family housing starts up 7% and multifamily down 34%. Single-family housing represents 75% of total new housing starts in the quarter.

Our Powersports revenues were $104 million in the quarter, representing 10% of our second-quarter 2024 consolidated sales. Our Powersports business is primarily centered around the side-by-side, golf cart, and motorcycle sectors of the industry, with an emphasis on the utility segment of the market. The utility segment has remained resilient with balanced inventory levels, and our backlogs have remained stable, while the recreation side of the market has been volatile with elevated inventory levels.

As noted, Sportech has continued to deliver better-than-expected results, both in the quarter and year-to-date, due to continued solid demand for their products. We expect that Sportech will continue to be an organic and strategic platform for future growth in Powersports.

On the innovation front, the Advanced Product Group, which Andy referred to, is continuing to gain momentum within our businesses, while deepening collaboration between us and our OEM partners. As evidenced by the introduction of our proprietary RV composite component solutions during the quarter, composites offer a more sustainable solution and positive benefits, including durability, supply chain reliability, and weight savings, while improving production efficiencies for us and our valued customers. The new composite components are extremely versatile and can be used for numerous applications both on the interior and exterior of RVs, as well as in combination with our other products in our portfolio. This allows us to tap into areas of content where we were previously underrepresented and provides us the opportunity to capture significant potential revenue over the long-term.

Staying on the RV side of our business, this quarter we have begun the exclusive distribution of Taoglass, a new low-profile RV antenna, which eliminates the need for bulky antenna installations, greatly improves connectivity options, and offers a sleek, minimalistic design favored by RVers.

On the Marine side of the business, as Andy discussed earlier, we recently introduced GereGlass to the market. This is a fully integrated windshield system that includes a frame, stanchions, integrated lighting, hinging and mirror systems. Geremarie's pre-existing infrastructure, highly automated production capabilities, and use of cutting-edge technology enables advanced designs that are more difficult for others to replicate. We recently launched production with a small group of customers but estimate the total addressable market for this solution is well over $100 million.

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.

I've enjoyed my first full quarter working at Patrick and have been focused on immersing myself in the business, deepening and enhancing my relationships, and supporting our teams.

Moving to our financial results.

Our consolidated second-quarter net sales increased 10% to $1.02 billion, driven by revenue growth of 17% in our RV market and 11% in Housing, coupled with better-than-expected results in Powersports related to the Sportech acquisition. Together, these factors more than offset the impact of a 30% decline in Marine revenue during the period.

Our ability to actively control costs and effectively manage our production and labor was evident in the quarter. Gross profit increased 10% to $231 million, and gross margin was 22.8% during the period, consistent with last year.

SG&A expenses increased $5 million, or 6%, to $84 million in the second quarter of 2024, primarily as a result of our acquisitions year-over-year, but decreased 30 basis points as a percent of sales.

Total operating expenses increased 9% to $147 million in the quarter. Amortization expense increased 22% related to the acquisition of Sportech in the first quarter of 2024.

Operating income grew $9 million or 12% to $85 million while operating margin improved 10 basis points to 8.3%. The improvement in operating margin reflected stronger revenue from our RV and Housing businesses, again representing successful efforts to diversify our business mix. This was partially offset by higher amortization as noted earlier, which increased 20 basis points as a percentage of sales from the second quarter of 2023, and lower revenue from our marine businesses, which tend to be higher margin with a higher fixed cost profile.

Net income increased 13% to $48 million, or $2.16 per diluted share. Our EPS for the second quarter of 2024 includes approximately $0.03 per share in additional accounting-related dilution from our 2028 convertible notes as a result of the increase in our stock price. As noted last quarter, we had 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 anti-dilutive and therefore cannot be included when reporting earnings per share.

Adjusted EBITDA grew 14% to $130 million versus $114 million last year. Adjusted EBITDA margin expanded 40 basis points to 12.8% for the second quarter of 2024.

Our overall effective tax rate was 25.6% for the second quarter, compared to 26.1% in the prior year. We expect our effective tax rate to be approximately 25% to 26% for the third and fourth quarters.

Cash provided by operations for the first six months of 2024 was approximately $173 million compared to $178 million in the prior-year period.

This quarter, purchases of property, plant and equipment were $17 million, reflecting continued investment in automation and select facility enhancements. Our strategic deployment of capital reinforces our commitment to automation and innovation in creating long-term value for customers and stakeholders. We continue to estimate our 2024 capital expenditures will total $70 million to $80 million.

Our balance sheet remains solid, and our team continues to make progress on reducing our net leverage toward our target range. After repaying $82 million in debt during the quarter, we ended June with a total net leverage ratio of 2.6x, down from 2.8x at the end of the first quarter and about 2.9x at the time we closed the Sportech acquisition.

We ended the quarter with total net liquidity of $519 million, comprised of $44 million of cash on hand and unused capacity on a revolving credit facility of $475 million. We plan to remain opportunistic in our capital allocation strategy with specific focus on acquisitions that complement our existing businesses and expand our presence in our end markets. As we evaluate the strategic growth initiatives, we will balance these with reinvesting in our business and returning cash to shareholders.

During the quarter we generated $121 million of free cash flow, and for the trailing twelve-month period, we generated $348 million of free cash flow.

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

We returned $12 million to shareholders in the form of dividends during the quarter. We did not repurchase any shares during the quarter, however, we will remain opportunistic on future share repurchases and had $78 million left authorized under our current plan at the end of the second quarter. As Andy noted earlier, we are prioritizing strategic opportunities while focusing on reducing our leverage to within our target range of 2.25x to 2.5x.

Moving to our end market outlook, we previously expected a one-for-one retail/wholesale environment for the full year, however, dealers remain extremely cautious, and we now expect RV and marine dealers to focus on maintaining minimum inventory levels in the third quarter and through the end of the year, or until consumer confidence and the rate environment improves.

As a result, we are keeping our retail estimates intact, shifting to the lower end of our range, but reducing our wholesale unit shipment estimates for both RV and marine markets.

Our full-year RV wholesale unit shipment outlook is now 320,000 to 330,000 units. This represents a reduction at the high-end of our previous forecast of 320,000 to 340,000 units. We estimate 2024 RV retail unit shipments will be down toward the lower end of our range, or approximately 10%, implying approximately 342,000 units.

In Marine, we now expect 2024 industry wholesale unit shipments for our overall product mix will be down 20% to 25%, which is below our first-quarter estimate of down 10% to 15%. Similar to RV, we expect full year industry retail unit shipments to be down toward the lower end of our range, or approximately 10%.

At the midpoint, these estimates imply a calendar-year dealer inventory reduction of approximately 26,000 RVs and approximately 17,000 boats, suggesting a significant restock opportunity on a recovery in demand or interest rate relief.

In our Powersports end market, our outlook remains unchanged. We estimate Powersports unit shipments in our product categories will be flat in 2024 and our organic content will be up mid-single digits.

In our Housing market, we estimate MH wholesale unit shipments will be up 5% to 10% for 2024. On the residential housing side of the market, we estimate 2024 total new housing starts will be flat to up 5% versus 2023.

The changes in our end market forecast, assuming current content per unit for each end market, imply a revenue reduction of approximately $100 million versus our prior end market outlook. Therefore, we now expect operating margin to be flat to up 20 basis points on an adjusted basis for the full year versus 2023.

We continue to estimate our full-year operating cash flow will be $390 million to $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'll now be conducting the question-and-answer session. If you'd like to ask a question today, you may press “*” “1” on your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press “*” “2” if you'd like to withdraw 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 before we poll from questions. Thank you.

Thank you and our first question today will be coming from the line of Daniel Moore with CJS Securities. Please proceed with your questions.

Daniel Moore
Thank you. Good morning, Andy, Jeff, Andy, appreciate the color. Maybe start with the RV side. Again, appreciate the color on the inventory discipline at the dealer levels, not a surprise from what we've heard here. I guess, first, how low can inventories go in terms of weeks on hand from your perspective? That's one.

And any update on just the cadence of how the summer has developed from a retail perspective, whether it's consistently lower year-over-year, getting incrementally worse, better? Anything on that -- just kind of anecdotally, what you're hearing on retail to give us some signals would be great.

Andy Nemeth
Sure, Dan. This is Andy. As it relates to weeks on hand and where we're at, we're at 18 - 20 weeks here at the end of Q2. We think there's going to be continued destocking in Q3 with a little bit of uplift back towards the end of the fourth quarter as we get towards kind of the next show season. So, at this 18 - 20 weeks right now is kind of we feel like we do expect to see a dip in Q3 again, but I think it should -- our expectation right now based on our estimates would be putting -- coming back to this 18 - 20 weeks.

So again, I think it can go lower; I think there's tremendous discipline in the marketplace today. Dealers are being very thoughtful and the OEMs are being very thoughtful as well to make sure that they keep these inventories in check.

I think what we get more optimistic and excited about is, when we do see an inflection point, the need to restock. Our view would be based on our analytics and numbers that we think 18 -20 weeks is too low for a more normal seasonalized impact. So, from a weeks on hand perspective, again, I think we are kind of bouncing along the bottom from our perspective as it relates to kind of average weeks on hand.

As it relates to retail numbers, we've seen kind of consistent trends really throughout the year so far. A little bit more in May/June from the comps that we saw year ago, but overall, nothing that's kind of spooked us at this point in time. And again, we're still estimating -- we haven't changed our estimates from Q1 of being 10% down on the retail side. We just think that the weeks on hand are to come down a little bit here again in Q3 as everybody is thoughtful and watching for the next inflection point.

Daniel Moore
Got it. Very helpful. And then on Powersports, you maintain guide -- maybe just give a little bit more color both from an end market perspective in terms of what you are seeing on the utility side versus a little bit more on the consumer side.

And then your ability to drive content gains and outpace the market, kind of both near-term and longer-term, what should organic growth look like for you in that business? I know there's a lot of – a few different questions in there, but how are things trending near-term and what do you think – what's the long-term algo look like?

Andy Nemeth
Sure. As it relates to Powersports and -- Sportech is really supercharged. You know our presence in this space today. We're seeing attachment rates go up, and so from an organic perspective we are optimistic about what we see there, especially as it relates to the Sportech product solutions, especially on the utility side which is really where that's focused. And so, while the rec side is seeing a lot of volatility, the utility side has been much more stable, our backlogs are stable. And again, attachment rates are going up.

The Sportech team has been a fabulous addition to our portfolio of brands, both culturally and from an operational perspective. And we expect continued content gains with Sportech, not only for the short term but for the longer-term as well, as they are extremely innovative. It fits right in line with our Advanced Product Group, which is out in advance of the current model year, looking out two and three model years to partner with our customers.

And so, we continue to see upside potential with that businesses as well as it being a strategic platform to continue to grow in that powersports market. So, feel really good about the powersports space, we feel really good about the utility side that Sportech participates in. But as well, their tremendous innovation and automation, as well as really working with customers to be forward-looking in that space. So, we're optimistic short-term and long-term.

Daniel Moore
All right, very helpful. One more and I'll turn back in queue. MH, obviously a smaller piece of your business now overall given you expanded in other areas, but a nice, pleasant surprise year to date, shipments up close to 20%. Are you experiencing similar growth in that part of your business? And what are you hearing from customers about their production plans and outlook for the remainder of the year? I think you said up to 5% to 10%, so curious if that implies a decline -- softer growth in the back half or just being conservative. Any thoughts there?

Andy Nemeth
I think we're just being cautious as it relates to MH towards the back half of the year. We've been pleasantly surprised with MH production levels. We think inventories are in balance in the channel. We absolutely believe in the housing market and the long-term value there as it relates to certainly inventories in the space, especially on the single-family side. And so, MH has been very positive for us. Our team has done a great job, we're gaining content, we've got new products out there.

So, I feel good about MH, and again, I think 5% to 10%, just being cautious, looking out. I also think that if we do see some interest rate inflection point similar to the outdoor enthusiast market, that we'll get some uptick as well on the MH side. So, nothing negative is what I would say and expect to continue positive results from our Housing group.

Operator
Our next question is from the line of Mike Swartz with Truist Securities.

Mike Swartz
Maybe just to follow up on the Powersports side of the business and understanding you're more tied to the utility side of that. But maybe give us a sense, I think, Andy, you had said that it's going -- the acquisition is going better than anticipated. Maybe give us a little framework for what exactly you mean. Is that top line? Is that industry demand? Is that margins and integration? Just any color around that would be great.

Andy Nemeth
Certainly, as we look at -- certainly, Sportech, it's been positive, like I said, from all fronts as it relates to the team, their cultural fit, alignment. We've done a lot of work as it relates to synergy opportunities and introducing our brand portfolio to the Sportech team and vice versa. We've had customers inquire in our outdoor enthusiast spaces about the capabilities of Sportech. So, I would just say positive energy overall. As it relates to the space in general, again, the resilience in the utility sector, which is primarily where Sportech plays today, as it relates to the cabin closures, and it's a full solutions model similar to what we're working on in our other businesses. We've seen traction, again, increasing attachment rates for us, from our perspective, plays out really well, and so we're very, very excited about that.

In addition to, again, like I said, the strategic opportunities that exist to really launch off of this platform in that powersports space, leveraging the Sportech team's abilities and talent to really kind of continue to expand our presence. So overall, it's just been very, very positive from all fronts, including the operational performance and financial performance of the business from our expectations.

Mike Swartz
And I think you had previously mentioned, I may have missed this, but you had mentioned on the first-quarter call that you anticipated about $400 million in annualized revenue in Powersports -- your Powersports segment. Is that still the right way to think about it?

Andrew Roeder
Yes, Mike. This is Andy Roeder. Yes, we're tracking to that number. So yes, things are going well with that business and that's still what we're tracking towards.

Mike Swartz

Okay. Awesome. Just flipping over to the Marine side, understanding you have a little more exposure to some areas that are a bit softer relative than maybe the broader industry. But the question I have is -- just pertains more to the content per unit side.

Is there any way to think about how much greater content per unit is in some of those segments that you skew towards, relative to the broader content pool? Meaning this -- your content into the ski and wake manufacturer is 20% more than the average boat manufacturer. I'm just trying to get a sense of any way to think about that.

Andy Nemeth
Yes, this is Andy, Mike, and without question, we believe there is continued runway in those areas where we're higher indexed towards as well, which we talk about, especially as it relates to ski and wake and pontoon. And one of the things, again, that we're excited about is our Advanced Product Group, which is bringing solutions to these markets and to these customers. And the breadth and depth of our portfolio really is showing itself today in the opportunities that exist from a solutions perspective across the spectrum. And so, as it relates to kind of where we can go, we absolutely believe we can continue to grow content in those spaces that we are heavily indexed and certainly in the spaces that we are not as heavily indexed. So, the runway is there. We really kind of target from an organic perspective, 2% to 3% annually. And we fully expect to achieve that, if not exceed that on an annual basis going forward in all of our markets, including marine, and also including those markets where we're heavily indexed.

Mike Swartz
Okay. And then just one final one for me, just housekeeping, in terms of the 10% growth that was reported in the quarter, can you give us the breakout between industry, M&A, organic, please?

Andrew Roeder
Yes. Sure, Mike. This is Andy Roeder, again. Overall industry, we have down 2%, acquisition growth up 7%, and then organic growth up 5%. Of that, organic growth breaks down with pricing down 2% and share content up 7%.

Operator
The next question is from the line of Craig Kennison with Baird.

Craig Kennison
Thanks. Good morning. Thanks for taking my question as well. And we've been concerned about this powersports destock for a while, and I think you've correctly called that you're in a better position, given where you're exposed. But just curious what signals you look for for a slowdown in that utility category and whether you're seeing any sign at all that that consumer might be more reluctant to spend.

Andy Nemeth

We're not seeing that at this point in time. We're seeing, again, solid backlogs take place. We're seeing our attachment rates grow. So, we feel like the opportunity there continues to be stable to up as it relates to our expectation. And so, the signals we look for certainly are going to be those two. What's -- what is, what do our backlogs look like? We're constantly talking to our customers to understand where they're at. But we feel like inventories are in balance.

Again, we feel like our penetration has been strong, and the opportunities on a go-forward basis with new products and innovations is certainly out there and exciting for us. So, we're not seeing any signs of weakening there, as it relates to that business, even if we do see a little bit of pullback on utility, which we're not seeing at this point in time.

Again, attachment rates continue to go up and we serve both the OE side and the aftermarket side. The aftermarket side runs through the OEs. That being said, there is tremendous potential for upfit on existing units that are out there in the space today. So, we kind of look at Sportech in its universe of primary -- primarily utility sector, and its ability to continue to increase its attachment rates in that space.

Craig Kennison
That's helpful, Andy. And maybe just a follow-up as it relates to Sportech. You seem very excited about that as a platform, a new platform in Powersports, you've also acquired Rockford Fosgate. I'm curious if you can help us understand how synergies develop from your acquisition. It's hard for us on the outside to see some of those internal developments related to synergies and what the platform can do as one. Maybe you can shed some light on that.

Andy Nemeth
Sure. From the operational side of the business, a lot of the manufacturing processes that Sportech does today are existing processes and capabilities that we have across our spectrum as it relates to equipment, our understanding of best practices, and so, there is a lot of linkage amongst the products that Sportech produces for us.

And then when we think about bringing full solutions to the customer, Sportech already has a solution as it relates to the cabin closure, whether it's the doors, the windows, the tubing, the framing, but we've got electronics capabilities, we've got audio, we've got dash panel and wire harnesses. We've got technology that we can incorporate even further into a full solution that Sportech brings today to bring kind of a one-stop-shop for our customers in that space and really again be able to be extremely innovative.

So, it's not just the manufacturing. Again, we do a lot of similar processes that Sportech already does, but their engineering, their look forward, their ability to be out in front as it relates to innovation and in alignment with where we want to go. Just a tremendous amount of synergies and partnership. And again, and I don't want to understate the impact of the cultural fit with the team. It's just a fabulous group of leaders who are extremely motivated and energized and connected. And again, they fit perfectly with our portfolio of companies.

Jeffrey Rodino
And Craig, one other thing I would add to that is -- this is Jeff -- last week we were very excited to bring operational managers from all of our companies from all over the country into Elkhart last week to really start collaborating and making sure all of our divisions kind of know what the capacities and capabilities are from all of our operations so we can really start to grow those relationships kind of across all of our companies.

So, if there is something some of the other operations guys can help out with, it's really advantageous to really get that collaboration together and that's where some of those synergies can really start to take place kind of behind the scenes.

Craig Kennison
That's great. Thank you. And quickly on 2025, I know it's early. I'm just wondering, as you plan for next year, what is your set of assumptions around demand and stocking levels in your end markets?

Andy Nemeth
Sure, Craig. This is Andy. I think initially, and again, we're early in this phase. We've certainly done modeling under various scenarios, but we expect kind of 2025 again at this point in time to be up. And as we look at where inventory levels are at, we think there needs to be a restock. And if rates come down, it's going to certainly be more opportunistic for everybody in the space, at the retail level, at the dealer level, for everyone to be able to participate in that restock.

So, it's early. We think it's going to be up in each of our markets next year. You can say mid-single-digit percentages if you want to low-double as a guess at this point and an estimate. But certainly, the restock factor points to bigger numbers than that. So, that's where we can get really optimistic at the inflection point. I don't know that we're ready to pinpoint that specifically yet, but that's where we get excited again as the restock plays, especially given the weeks on hand that we see today in our markets.

Operator
Our next question is from the line of Scott Stember with ROTH MKM.

Scott Stember
Good morning, guys, and thanks for taking my questions. You guys were talking about the OEMs, I guess, particularly on the rec side, RV and marine, obviously being a lot more cautious in the back half of the year. And I guess, part of that is -- it sounds like the model year '25 roll-out has kind of been pushed out a little bit. But all in, what are you expecting from an order perspective from the OEMs, notably in RVs in the third quarter, what are you seeing in July?

Jeffrey Rodino

Yes. So, so far, we've seen pretty consistent production levels as we've gone through that. I don't know that we've seen the model years being pushed back, as you mentioned a couple of minutes ago. But we've seen them pretty consistent so far. Certainly, this part of the year we will see intermittent shutdowns, a couple days off here, maybe a week off there as it gets around the Labor Day time frame and the open house. But nothing really unexpected, nothing kind of jumping off the page from -- looking at all the production levels that are out there right now.

So, we think pretty consistent. But as we still believe, as Andy has mentioned a couple times, that the dealers are going to bring that inventory weeks on hand down. We expect that there will be some slower weeks here and there. But as far as the overall production rates on a per-day basis, they seem pretty consistent.

Scott Stember
Got it. And the 7% organic content that you talked about, very impressive. But going into next year, again, we know it's early, but just trying to get a sense, I guess, over the next 12 months, where would you expect that content number to be, as far as on a growth perspective?

Andy Nemeth
Yes, Scott, this is Andy. I think, again, in general, we're targeting 2% to 3%. But I think what we're really excited about right now is we've picked up a lot of business that should be forthcoming over the next 12 to 18 months, and our teams have been extremely active in working with our customers. The number of prototype -- the amount of prototyping that we're doing today is more than we've seen in the last 5 years in both of our markets.

And so, we see a lot of innovation happening. We've picked up organic content and so, we certainly set our bar at kind of 2% to 3% organic. But I would expect to exceed that over the next 12 to 18 months, just given the penetration that we've had, the innovation and the solutions marketing that we're doing with our customers over the longer term.

Scott Stember
Got it. Thanks guys. That’s all I had.

Operator
Our next questions are from the line of Noah Zatzkin with KeyBanc Capital Markets.

Noah Zatzkin
Just kind of piggybacking off of a question, I think a couple of questions ago, just around the volume expectations across end markets for next year. If you guys were to grow like mid-single digits to low double digits next year, how do you think about the margin opportunity relative to this year?

I assume, and you may have mentioned this, but the vast majority of kind of like the margin guide tweaked down this year was the maybe $100 million of kind of incremental end market softness this year. So, just trying to think through the leverageability of margins next year as volumes increase. Thanks.

Andy Nemeth
Sure. This is Andy. Without giving an exact number as it relates to kind of the incremental margin factor, what I would tell you is, we've sized our businesses in each of our markets to the current run rates. And we talk about earnings power of the organization and the company today, our ability to flex back up. We've got the capacity. We do not need to add a significant amount of incremental fixed costs to support the volume levels that you're talking about. And so, we think about the upside margin potential – very strong. And that's what gets us really excited today in each of the markets.

And when you look at kind of -- we pulled our operating margins back a little bit. Again, we brought our Marine numbers down from a wholesale perspective to match up with run rates being consistent through the rest of the year. And that's a high-margin, high-engineered product group, right, with a high fixed cost base.

So, the leverageability from our perspective is meaningful. And as we look at potential mid-single to double-digit upticks in volume for us across the board, that's where we get excited about the earnings power. So, without kind of giving you the exact numbers on incremental, we are very optimistic about our ability to flex up without adding significant incremental fixed costs.

Noah Zatzkin
Really helpful. Maybe just one more. Any update on kind of what you're seeing out there from an M&A perspective in terms of opportunity set valuations that are sending the call out there?

Andy Nemeth
Sure. M&A is -- we're continuously cultivating our acquisition pipeline organically. And I'll tell you, outside deal flow coming from third parties has kind of slowed down a little bit or is fairly inactive right now. We are seeing some deals come across from the investment banking side, but we are always actively organically cultivating our own acquisition pipeline.

And so, deal multiples have stabilized, certainly from where they were a couple of years ago. As we look at the deal perspectives, everybody kind of is putting valuations around normalized run rates versus kind of the run rates that we're running at today. And so, we can be very flexible, we can be very creative when it comes to creating valuation opportunities related to deals. And we are continuously cultivating our acquisition pipeline. We're optimistic about it.

We are actively looking at acquisitions and we'll continue to do so. Our financing platform is very strong, as we've noted. Leverage is where we want it to be, and our liquidity is extremely strong. So, we are actively looking at acquisitions and continuously cultivating acquisitions in our pipeline.

Operator
Our next question is from the line of Tristan Thomas-Martin with BMO Capital Markets.

Tristan Thomas-Martin
You mentioned a couple of times, there needs to be a restock probably in '25. I was just wondering, what do you think gets dealers the confidence to restock in terms of timing? Is it ahead of the selling season? Is it after retail inflects? How are you kind of thinking about that?

Jeffrey Rodino
Yes, I think, we're thinking that, getting into next selling season, so at the end of 2024 here, maybe late November into December. I think they -- if they get to the levels that we believe that they're going to go to through the third quarter here and starting in the fourth, that they'll need to have to restock coming into the show season, the selling season.

Just through our kind of conversations and also our business and the transportation side, we saw that there was a pretty quick push going into the show season to get product out there, and in some cases maybe a little bit late. So, we think that that's when the restock will happen. Maybe it's a slight bit earlier this year, end of '24 into '25. And really at the inventory levels that we see that they're going to go to, that -- a restock is inevitable.

Tristan Thomas-Martin
Okay. And then just a question. Camping World has been very aggressive, targeting cheaper price points. It seems like a lot of dealership chains are kind of following that. If that continues and there is kind of this renewed push towards cheaper units in '25 as well, is there any way to kind of quantify what that could do to your content? This is on the RV side.

Andy Nemeth
Yes, this is Andy. At this point, again, we are very active in working with our customers and partnering with our customers on pricing as it relates to our products. And we are very fluid both on the up and on the down and prices are fairly stable across our commodities right now and have been. And so, we're not expecting a lot of content erosion. The mix is definitely skewed towards the low end on the RV side of the business as it relates to smaller units that do have less content in them.

And so, we see upside potential not only when dealers restock, but also, we see upside potential as it relates to affordability and the consumer moving toward larger units from the smaller unit base that they're off of today. So, I think we're not expecting a lot of content erosion related to the pricing that's out there. We're going to remain very, very active in partnering with our customers as we see commodity movements in our prices. But that isn't changed from anything that we've been doing as it relates to our partnership with our customers and we expect to continue to do that.

Operator

Our next questions are from the line of Daniel Moore with CJS Securities.

Steve O'Hara
I think he -- yes, maybe he dropped off.

Operator
Thank you. I'd like to now turn the call back to Andy Nemeth for closing remarks.

Andy Nemeth
Thank you. I want to end the call today by once again thanking our dedicated employees for their contributions to Patrick and their commitment to our Better Together culture, which helps drive our success each and every day. Their expertise and leadership allow us to deliver on our good, better, best value proposition, support our customers, and develop innovative, customer-focused solutions. We remain energized about the future of Patrick and will continue to grow through organic growth, innovation, and the pursuit of accretive acquisitions that complement our existing portfolio. We're focused on driving resilient results, maintaining our strong balance sheet, generating free cash flow, and maximizing returns to our shareholders. Thank you for your continued support.

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

Editor

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