Third 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
Kip Ellis, President – Powersports, Technology and Housing

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

Operator
Good morning, ladies and gentlemen, and welcome to Patrick Industries Third Quarter 2024 Earnings Conference Call. My name is Joe, and I will 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. And 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'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 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.

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.

Once again, this quarter, I want to first and foremost thank our amazing team members for their incredible commitment, dedication, skillful execution, collaboration, and attentiveness to maintaining our high level of organizational performance during this prolonged period of industry-wide headwinds in each of our end markets. OEMs and dealers have maintained strict inventory and production discipline in response to the current demand environment. We as well, have adapted our model in alignment. Our business, while not totally unaffected, continues to be more resilient on a relative basis. This is the direct result of several factors included in our strategic plan, including our ongoing diversification, strategic approach to M&A, and prudent cost management, which have all played key roles. Additionally, we've demonstrated our ability to right size operations while simultaneously generating strong cash flows and delivering high-quality solutions and services to our valued customers. Throughout this process, we prioritized maintaining a strong balance sheet and access to ample liquidity, which together preserves our ability to remain nimble and flexible.

In the third quarter, we produced top-line growth of 6%, resulting in revenue of approximately $919 million and on a trailing 12-month basis, approximately $3.7 billion. Net income in the third quarter grew 3% to $41 million and earnings per diluted share were $1.80, including approximately $0.06 of dilution from our convertible notes and related warrants. Our adjusted EBITDA increased 7% to $121 million, while adjusted EBITDA margin was up 10 basis points to 13.2%.

Last quarter, we discussed three key themes for our business: the diversification and resilience of our model, advanced product innovation, and M&A strategy. Before Jeff and Andy dive further into our end market and financial performance, I want to highlight some points of execution on these themes.

First, we have focused on leveraging the strength and diversification of our portfolio, not only among our end markets but also with our product offering. Our ability to offer a good, better, best value proposition allows us to adapt to changing consumer preferences while maintaining our competitive edge. We have been able to maintain strong operational performance and resilient margins despite what continue to be challenging conditions across our end markets.

As we moved through the quarter and even into the past month or so, we recognize that consumers remain price-conscious and interest rate sensitive. Our results this past quarter illustrate the success of the targeted investments we have made strategically and through our automation efforts to diversify our business and improve its scalability and quality over time.

Second, advanced product solution innovation remains a core tenet of our growth strategy, and enterprise-wide investments are elevating the innovation platform that exists within Patrick to accelerate our longer-term growth through new products and services. Our dedicated Advanced Product Group is leading the way at Patrick, in partnership with our customers, to develop next-generation solutions. We have invested in and formally cultivated teams of industry experts, engineers, and designers in our Outdoor Enthusiast end markets that are focused on synergizing the leadership at Patrick in an effort to bring new products and services to our customers over the next several years. Through a combination of internal innovation, strategic acquisitions, and a tremendous focus on customer service, we will continue to strengthen our relationship with all of our customers. We view these investments as strategically important and highly accretive over the long term.

In complement with our Advanced Product Group, individual brands across Patrick continue to develop their own award-winning products and services. SeaDek was honored once again at IBEX this fall for their all-new magnetic SeaDek, which employs ultra-strong magnets to form a secure bond on surfaces while allowing easy removal for cleaning, winterization, and maintenance. SeaDek continues to challenge the status quo by bringing functional, customizable, and creative products to market. Additionally, our new composite board proprietarily named NTXT is gaining significant penetration with our RV customers as they focus on more innovative, lighter-weight, sustainable solutions.

And third, as we discussed last quarter, acquisitions remain a key component of our strategic growth plan. To that end, in the quarter, we closed on the acquisition of RecPro, which establishes an aftermarket platform and foundation for us, significantly increases our exposure to the aftermarket, and has tremendous synergies with our Marine and Powersports brands and products. Jeff will provide further insight on some of the key synergies and opportunities from this acquisition in a few minutes.

On the capital structure side of our business, we ended the quarter with a strong balance sheet and augmented that strength with the completion of our refinancing earlier this month, opportunistically improving our liquidity position and our cost of debt while extending the maturity horizon on both our credit facility and our long-term debt. Our available liquidity at the end of the third quarter was approximately $458 million and on a pro forma basis after the aforementioned transactions was approximately $755 million. We remain committed to a disciplined and balanced capital allocation strategy with a focus on growth and strategic acquisitions.

As we head into the fourth quarter and year-end, OEMs and dealers remain intensely focused and disciplined as they maintain minimal inventory levels, and we anticipate reduced production levels in the fourth quarter. We've aligned our business to the current run rate environment.

However, we also want to remain flexible, nimble, and scalable to support the expected ramp-up in our business when our markets turn and capitalize on that recovery.

At this time, even though our OEM partners are further scaling back production and focusing on smaller units, we are prioritizing our ability to support our customers for the longer term by committing to investments in our team and business model during this period for that longer-term outlook, which will create some short-term inefficiency and operating margin erosion in the fourth quarter. Additionally, we may increase our inventory levels in the fourth quarter and first quarter of 2025 to ensure our ability to flex and scale with our customers' needs. We are optimistic that tailwinds are building related to interest rates and remain confident about the consumers' excitement to participate in the outdoor enthusiast space and the growing need for affordable housing.

While recent interest rate reductions have yet to significantly impact consumer purchasing patterns and recent weather challenges have changed some of the priorities for their disposable income, our team believes demand will start to recover as we move through 2025, and we are confident in our ability to pivot and maximize our results and opportunities.

And finally, I'm excited to announce that Patrick Industries will be hosting its inaugural Investor Day in New York on December 3rd. This event will provide an opportunity for us to share the latest update on our long-term strategic vision, a more detailed outlook for 2025, and showcase some of the incredible talent we have in our organization. We look forward to continuing to actively engage with the investment community and providing deeper insights into our business and growth strategy.

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, our teams continue to perform at an exceptional level. And I, too, want to thank them for the exemplary performance they have delivered in managing our business, despite volatile production levels and continued aggressive efforts from OEMs and dealers to maintain lean channel inventory as we head into the winter. This is truly a reflection of the strength of our culture and our entrepreneurial spirit as well as the tremendous character of our team members.

Moving to our end markets, our third quarter RV revenues were off 1% to $396 million versus the same period in 2023, representing 43% of consolidated revenue. RV content per unit on a TTM basis was $4,887, off about 1% from the same period last year. However, CPU on a quarterly basis is up 5% sequentially from the second quarter of 2024, driven by continued execution and market share gains. Trends continue to reflect stronger demand for smaller, entry-level units.

RV wholesale shipments increased 6% in the quarter, and we estimate total RV retail unit shipments decreased approximately 8% during the same period. Even with the increase in wholesale production during the quarter, our estimates suggest dealers have destocked an additional approximate 19,800 units during the quarter, resulting in an estimated 16 to 18 weeks-on-hand versus the historical average of 26 to 30 weeks, and further down from the first and second quarters of 2024. With weeks-on-hand being significantly lower than historical levels, we remain optimistic that dealers will continue to restock inventory ahead of spring selling season to avoid having too little inventory to meet customer demand and to support the expected inflection in retail when the economic environment supports it.

Our third quarter Marine revenues were $136 million, off 21% from the prior year, representing 15% of consolidated sales. Our estimated Marine content per wholesale unit on a TTM basis was $3,936, down 6% from the same period last year. However, on a quarterly basis, sequentially from the second quarter of 2024, estimated content per unit was up 3% year-over-year and 7% sequentially.

As we've discussed, we are more heavily indexed towards higher-engineered ski and wake and pontoon categories, where we estimate production levels were down approximately 41% and 29%, respectively, in the third quarter, and approximately 52% and 35%, respectively, year-to-date. As a reminder, prior to the first quarter, we reported Powersports revenue in our Marine market and 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 45,000 and 31,900 units, respectively. This implies a dealer field inventory reduction of approximately 13,000 units, leading to our estimate that weeks-on-hand dropped to 19 to 21 weeks at the end of the quarter, well below the historical average of 36 to 40 weeks and further down from the first and second quarters of 2024. As noted, we anticipate that dealers will continue to remain cautious on adding additional inventory during the slower seasonal period and believe these challenges may be magnified in the near term by recent storms in the south.

Our Powersports revenues were $87 million in the quarter, representing 10% of our third quarter 2024 consolidated sales. Our Powersports business is primarily centered around side-by-side, golf cart, and motorcycle sectors of the industry with the emphasis on the utility segment of the side-by-side market. Similarly to the last quarter, utility remained resilient when compared to the recreational side and our Powersports business delivered upon our expectations. We are beginning to see the softening related to OEM production levels in the utility side in the fourth quarter, primarily as a result of OEMs aggressively focusing on keeping inventory levels lean in this segment of the market, and we expect this to continue in the first half of 2025. We anticipate OEMs and dealers will continue to collaborate in an effort to maintain appropriate dealer inventory levels.

On the Housing side of our business, better-than-expected demand for affordable housing in the third quarter had a positive impact on revenue and the ability to generate cash flow. For the quarter, our Housing revenue was up 13% to $300 million, representing 32% of consolidated sales. In Manufactured Housing, which represented approximately 59% of Housing revenues in the quarter, our estimated content per unit on a TTM basis increased 1% year-over-year to $6,518 and was up 1% sequentially.

Given the most recent rate cuts, we expect the consumer purchasing power and availability of homes will improve as we move into and through next year. MH shipments increased an estimated 17% in the quarter, while total housing starts declined 3%, with single-family housing down slightly and multi-family down 11%. Single-family housing represented approximately 73% of total new housing starts in the quarter.

Finally, as Andy mentioned briefly, we closed on the acquisition of the direct-to-consumer aftermarket-based RecPro in September. This acquisition is a prime example of our strategy to acquire leading brands with unique yet complementary products, services and processes that can be used to generate additional opportunities across our business units and for our valued customers. With RecPro, we see three exciting opportunities: first, RecPro has and will continue to grow its consumer-focused brand and portfolio of private label and independently branded direct-to-consumer products. Second, we are excited to introduce the RecPro brand name and products to our OEM customers as an alternative to current products in the space. And finally, we have the opportunity to sell our legacy portfolio of manufactured and aftermarket products across end markets through a more effective, well-known, and efficient distribution platform. Together, in collaboration with RecPro's incredible team, we plan to expand and enhance the accessibility of aftermarket components at Patrick and see significant runway and continued growth potential to this channel as a result.

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

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

Moving to our financial results.

Our consolidated third quarter net sales increased 6% to $919 million, driven by 13% growth in Housing revenue, coupled with increased sales from the acquisition of Sportech earlier this year. Together, these factors more than offset the 21% decline in Marine revenue and a 1% decline in RV revenue during the period. Gross profit increased 7% to $213 million and gross margin was 23.1%, up 10 basis points from the same period last year.

SG&A expenses increased $5 million, or 7%, to $76 million in the third quarter of 2024, primarily due to acquisitions that closed in the past year. Amortization expense increased approximately

$5 million, or 25% year-over-year, also as a result of acquisitions. Total operating expenses increased $10 million, or 8%, to $138 million.

Operating income grew $3 million, or 5%, to $74 million, while operating margin declined slightly by 10 basis points to 8.1%. These figures reflect our focus on maintaining a high level of service for our valued customers, higher amortization, as noted earlier, and lower revenue from our Marine businesses, which tend to be higher margin with a higher fixed cost profile.

Net income increased 3% to $41 million, or $1.80 per diluted share. As Andy noted, our diluted EPS for the third quarter of 2024 includes approximately $0.06 per share in additional accounting-related dilution from our 2028 convertible notes and related warrants as a result of the increase in our stock price above the convertible option strike price. As we've noted in the past, we have hedges in place, which are expected to reduce or eliminate any potential dilution to the company's common stock upon any conversion of the convertible notes and/or offset any cash payments the company is required to make in excess of the principal amount of 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 7% to $121 million versus $113 million last year. Adjusted EBITDA margin expanded 10 basis points to 13.2% for the third quarter of 2024.

Our overall effective tax rate was 24.8% for the third quarter, compared to 27% in the prior year. We expect our effective tax rate to be approximately 25% to 26% for the fourth quarter.

Cash provided by operations for the first 9 months of 2024 was approximately $224 million.

This quarter, purchases of property, plant, and equipment were $18 million. We continue to prioritize our investment in innovation and automation to create long-term value for customers and stakeholders. We estimate our 2024 capital expenditures will total $70 million to $75 million.

Our balance sheet remains solid. At the end of the quarter and including our acquisition of RecPro, our net leverage was 2.6x, clearly in alignment with our plan to de-lever following the Sportech acquisition to a planned target range of 2.25 to 2.5x.

Total net liquidity at the end of the third quarter was $458 million; comprised of $53 million of cash on hand and unused capacity on our revolving credit facility of $405 million. Our goal is to remain balanced in our capital allocation strategy. We are also opportunistic with a specific focus on margin accretive acquisitions that complement our existing businesses and enhance our presence in our end markets. As we evaluate strategic growth initiatives, we will continue to balance these with reinvesting in our business and returning cash to shareholders.

As Andy mentioned, in October, we proactively issued $500 million of 6.375% senior notes due 2032 and plan to redeem $300 million of 7.5% senior notes due 2027 on November 7, 2024. We also amended and restated our revolving credit facility with more favorable terms, increasing the size to $1 billion and extending the maturity out from 2027 to 2029. These actions have positioned us with an additional $300 million in liquidity, will reduce our annualized interest expense, and extend the maturity of an already strong credit facility. We continue to have the balance sheet strength, flexibility, and liquidity to remain on offense with the ability to seize profitable and meaningful 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 $78 million left authorized under our current plan at the end of the third quarter. As Andy noted earlier, we are prioritizing strategic opportunities while focusing on maintaining a manageable leverage ratio.

Moving to our end market outlook. As we noted last quarter, OEMs and dealers alike remain extremely disciplined, and we continue to expect RV and marine dealers to focus on maintaining minimal inventory levels through the end of the year and expect the powersports OEMs to reduce dealer inventories through the end of the year. We believe an improvement in consumer confidence and interest rates are key factors that should meaningfully improve dealers' desire to bring on inventory beyond the minimum level and anticipate seeing this inflection in 2025.

We now estimate full-year RV wholesale unit shipments will be towards the low end of our previously expected range of 320,000 to 330,000 units and continue to estimate 2024 RV retail unit shipments will be down approximately 8% to 10%, implying roughly 340,000 to 350,000 units.

In Marine, similar to RV, our wholesale outlook is more conservative as we now expect 2024 industry wholesale unit shipments for our overall product mix to be down 25% to 30%. We continue to expect full-year industry retail unit shipments to be down approximately 8% to 10%.

In our Powersports end market, given the recent commentary from OEMs in the space that they are acutely focusing on reducing dealer inventory, we now estimate Powersports unit shipments will be lower than we originally forecast and expect our Powersports revenue to decline 10% to 20% sequentially from the third quarter.

In our Housing market, we estimate MH wholesale unit shipments will be up 15% for 2024. And on the residential housing side of the market, we estimate 2024 total new site-built housing starts will be flat versus 2023.

The changes in our end market forecast, assuming current content per unit for each end market and factoring in a more positive MH outlook imply a revenue reduction of approximately $60 million to $70 million versus our prior outlook. Including the RecPro acquisition, we expect the decline to be approximately $50 million to $60 million. As Andy noted, while we have rightsized our business to the current run rates, we are not implementing additional cost reduction efforts in the fourth quarter, as we are focused on ensuring the integrity of our business model and talent profile to support our anticipated scalability needs in alignment with longer-term OEM needs and demands, and in alignment with our strategic initiatives and customer service-related focus. This will cause some operating margin dilution in the fourth quarter as OEMs scale back production levels even further, especially when compared to the historical restocking opportunity we typically see in our markets in Q4 in anticipation of the upcoming selling season. We have a playbook to further scale back our cost profile, and we'll execute if needed for the long term if we do not see an improvement in our markets. As a result, we now expect operating margin to be down 20 to 30 basis points on an adjusted basis for the full year versus 2023 to 7.2% to 7.3%.

We estimate our full year operating cash flow will be $370 million to $390 million, implying free cash flow of $295 million or more based on our CAPEX estimates. As Andy also noted, we may intentionally add some raw material inventory during the fourth quarter to ensure flexibility and scalability with our OEM partners' potential needs in 2025.

For 2025, we plan to lay out our detailed outlook for our end markets and margins at our upcoming Investor Day in December and look forward to sharing more soon. For now, we'd like to give you some high-level thoughts on how we are currently anticipating our end markets performing next year. We are optimistic that an inflection will come in 2025 and believe consumer confidence will improve following the election given still low unemployment, solid economic growth, and a more favorable interest rate outlook with lower inflation. Based on these expectations, we estimate RV retail will be flat next year, which on an expected one-for-one replenishment model will drive improvement in wholesale shipments as dealers keep weeks-on-hand unchanged. For Marine, we expect retail to be flat year-over-year with improvement not beginning until the second half, and estimate wholesale will be up 5% to 10%, still implying a less than one-for-one replenishment model. For Powersports, we expect shipments to be down 10%. In our Housing business, we expect MH shipments to increase 5% to 10% and single-family starts to be flat to up 5% next year. Based on these estimates, we would expect our operating margin in 2025 to improve meaningfully and more than the top end of our typical 30 to 50-basis point range to an estimated 70 to 90 basis points.

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

Operator
Thank you. Ladies and gentlemen, if you'd like to ask a question, please 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 would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the "*" keys. And due to the interest of time, we ask that you limit yourselves to one question and one follow up. One moment, please while we poll for questions.

And the first question comes from the line of Scott Stember with ROTH MKM. Please proceed.

Scott Stember
Hey, guys. And thanks for taking my questions.

Andy Nemeth
Good morning.

Jeff Rodino
Good morning.

Scott Stember
You guys gave an update for the fourth quarter on Powersports, I guess, the sequential decline that you're expecting to see. Can you maybe talk about what you're expecting to see in some of the other markets such as RV and Marine, given the incremental shutdowns that you're expecting?

Andy Nemeth
Scott, this is Andy. When I think about kind of just overall Outdoor Enthusiasts, discipline as it relates to inventory is really the common theme that we're seeing today. And the OEMs have been incredibly thoughtful about the way they're thinking about inventories-on-hand. As we noted from a weeks-on-hand perspective, inventories continue to decline in both RV and Marine. And we think the same is happening in Powersports, especially on the utility side of the business. We think the OEMs are being proactive in ensuring that they keep their inventories in check. And so as we look at kind of Q4 here, our expectation is that OEMs are going to continue to be disciplined. They're going to continue to be thoughtful. We're seeing some reduced production levels in Q4 here, but all in alignment with maintaining extremely, let's just call it, opportunistic inventory levels that are going to need to flex back up when we do see an inflection in retail. So overall, just in general, in Outdoor Enthusiast, what we'd tell you is incredible inventory discipline and thoughtfulness on OEM production levels, which, again, we think is going to lead to a restock.

Scott Stember
Got it. And then last question before I get back in the queue. Just taking a step back after the RecPro acquisition, can you maybe talk about how you guys are positioned from an aftermarket standpoint? How much, or what percentage of your total sales? And what kind of a cushion could this provide you if things were to remain soft into the first half of next year?

Andy Nemeth
Sure. I'll talk a little bit about RecPro, and then I'll let Jeff add some additional color on it. But I would just tell you that RecPro is extremely exciting from our perspective as it relates to a real true aftermarket platform for our business and as we are kind of looking across our Outdoor Enthusiast product lines and brands today, we are extremely excited about the potential to leverage that RecPro aftermarket platform and really demonstrate some organic growth amongst our existing product categories and really kind of flow that through as it relates to our ability to touch the aftermarket on a direct-to-consumer basis. So RecPro for us is a foundation. It's kind

of the one we've been looking for as it relates to size and scale, and it's performing better from our perspective as it relates to the outlook we have. We're very excited about what we see. So Jeff, I don't know if you want to add any additional color?

Jeff Rodino
Just I would add that in the first month and a half, we have seen our teams really adapt on to what RecPro's model is and really get very active in working with the team over at RecPro to look at how they're approaching the aftermarket, how RecPro can help them further their approach into the aftermarket. And we're starting to get some traction along the lines of showing some of the RecPro products into our other spaces. So, it's really exciting that I talked about kind of the three-pronged or three opportunities within the prepared remarks, and we're really active in all three of those areas really almost immediately. So, it's really exciting to see.

Scott Stember
Got it. That's all I have for now. Thank you.

Andy Nemeth
Thanks.

Operator
And the next question will come from the line of Mike Swartz with Truist Securities. Please proceed.

Michael Swartz
Hey, guys. Good morning. Just maybe to start housekeeping. Just in terms of the 6% revenue growth in the quarter, could you give us just a sense of the M&A contribution versus pricing versus the organic share?

Andy Roeder
Sure, Mike. This is Andy Roeder. Yeah, M&A acquisitions drove that growth. Acquisitions were up 9% for the quarter year-over-year. Industry was down 4%., that includes mix, and organic was up 1% with pricing down 2% and content share up 3%.

Michael Swartz
Okay. Perfect. That's super-helpful. And as we talk about the lowering the full-year outlook for operating margins, I would assume most of that is coming from the reduced outlooks in Marine and Powersports. But was there any impact from the RecPro acquisition? I know it's, as you've said, margin-accretive, but was there incremental D&A associated with that that's material?

Andy Nemeth
Sure, Mike, it's Andy Nemeth. Two things. One, it is -- our operating margin erosion in Q4 that we're talking about today is purely related to the industry declines or at least the production levels being pulled back in Marine and Powersports, as you noted. RecPro is at its seasonally low,

if you will, in the aftermarket side of the business in Q4. And so Q1, Q2, we start to see things really pick up, Q2 being the strongest as it relates to the aftermarket platform.

So, it's kind of the seasonal low for RecPro, but we are still seeing, again, everything according to plan as it relates to RecPro. There's some SG&A acquisition related that's driving through and as well as the amortization is flowing through at the OpEx line. So, we don't expect any gross margin erosion. What we really -- this is really kind of at the operating level amongst acquisitions and amortization impacting margins in the fourth quarter.

Michael Swartz
Got you. That's helpful. And then just a final one for me. As we look at the RV content in the quarter, I know you guys talked about it on a TTM and it was kind of similar rate of decline year-over-year as we saw in the second quarter. But the implied content intra-quarter would have been down about 7% year-over-year, and I think it was up 9% in the second. So, I guess, help me bridge the change there. Is that all due to kind of incrementally negative production mix, or is there anything else kind of driving that quarter-over-quarter change?

Jeff Rodino
Yeah, Mike, this is Jeff. Since the beginning of the year we've seen kind of the shift in the overall RV market, about 5% shift into travel trailers. And amongst that shift, we've seen, as I mentioned and noted in the remarks, the trend towards smaller, more entry-level units, and we've seen a lot of that occur, and we continue to see that trend in the third quarter and really more so even into the fourth quarter. So that is, you know, we're not losing any content per se, just the smaller units drive a smaller number on that number.

Michael Swartz
Okay, great. Thanks, Jeff.

Operator
The next question comes from the line of Daniel Moore with CJS Securities. Please proceed.

Dan Moore
Yes, thank you for all the color. Again, just going back to the RV side, obviously, I understand dealers holding tightly onto inventories through the remainder of the year and really kind of historic lows. So just curious about the outlook for next year. If retail is indeed flat, it sounds like you're not necessarily anticipating any type of restock in the initial outlook for 2025. And wondering how much conservatism is in that type of forecast? Just curious why we wouldn't see a little bit more of a restock if indeed we do kind of flatten out on retail.

Andy Nemeth
Sure, Dan. This is Andy Nemeth. As we look at the RV industry and the balance in the inventory today, we're assuming similar weeks-on-hand to what we have today for next year in this model. So, what I would tell you is we do believe that there's a need for restock. We're being thoughtful

and cautious about how we're thinking about our business model and plan and forecast right now.

But I will tell you as well, that there's been points in time during this year where we've seen incremental upticks in demand from the dealers to the OEMs based on inflection points, if you will, small inflection points of retail at the dealer lots. And so, we've seen that through our transport businesses. And so, we do feel pretty confident that a restock will be needed. But at that point -- at this point in time, we're just being thoughtful and cautious about where we're at, holding weeks on hand, assuming that we'll be able to inflect when the conditions change.

Dan Moore
Certainly, makes sense. And then just looking at the balance sheet, obviously, the opportunistic financing. As you noted, you have over $700 million of liquidity. As you continue to grow, approaching $4 billion in revenue and expand end markets, are you seeing larger potential opportunities on the M&A front?

Andy Nemeth
I think that we absolutely are seeing larger deal potential and deals out there. We certainly are attracted to both smaller and larger deals, but the excitement that we have today certainly is in the depth and breadth of the pipeline that we continue to organically cultivate and look at. So, to answer your question in short order, yes, we are seeing larger deals out there that we definitely are taking a look at as well as some of the smaller deals. So, we're not throwing away the smaller deals. We certainly are excited about some of the entrepreneurial businesses that are out there. But again, we do look and feel like we've got an appetite for larger deals.

Dan Moore
And I'll sneak one more. In Powersports, I think you said that the expectation is for shipments to be down about 10% next year. Obviously, the thesis is around Sportech is in content growth. So just maybe talk about Patrick's potential to outpace the end market in 2025, but more importantly, on a go-forward basis, given the content opportunities that you're seeing. Thanks again.

Kip Ellis
Hey. Good morning, Dan. Powersports on a broad basis, we projected roughly 10% off. That's a combination of on- and off-road product. We are, as you're well aware, skewed more to the UTV side and the premium element of that. And we're emboldened by the continued cab attachment rates. We're continuing to see increases in that regard as HVAC is instituted in these models, both the 3-Pass and the 6-Pass units. And so we continue to see -- we've estimated low- to mid-single-digit growth organically within that. And we're also encouraged by some of the notes have been put out there about the relative resilience of the ultimate -- or the UTV ultimately equipped the premium product within that space being more resilient with low single-digit retail pullback.

So as Andy alluded, we recognize some diligence and some proactive inventory pruning. We feel we're positioned to be in the segments of the market that have been least impacted from a cycle standpoint. And so the R&D pipeline for these businesses remains full. And so as we look at continued attachment rate growth and we look at the broad portfolio of customers that we work with and their interest in working with us on these components, we're excited about how that projects. But on a broad basis for Powersports, specifically side-by-side, the chassis themselves, we're plugging an estimated 10% pullback for next year, but our mix and organic growth would certainly be an offset in part to that.

Dan Moore
Very helpful. Thanks again.

Andy Nemeth
Thank you.

Operator
And the next question comes from the line of Noah Zatzkin with KeyBanc Capital Markets. Please proceed.

Noah Zatzkin
Hi. Thanks for taking my questions. Maybe just one on RV. In terms of kind of industry mix shifting towards kind of lower-end travel trailers and some of the kind of shortening of units and I won't call it de-contenting, but maybe de-contenting that's gone on, where do you think we are looking out into 2025? Do you think that dynamic has kind of stabilized, or do you think there's kind of more pressure from mix that will continue next year? Thanks.

Andy Nemeth
Yeah, Noah, we feel like -- so the mix hasn't -- has changed this year. It hasn't necessarily changed in the last quarter. So we've seen this mix of smaller units, and it's continued to be a mix towards smaller units. What we typically see in cycles as we see a return of consumer interest and confidence and we see kind of rates coming back down, we see the opportunity for the consumer to -- who have bought these smaller units to upgrade. And so if you were to ask us where we think we're at, we expect to see these small units for a short period of time until such point when that consumer confidence inflexes. And then at that point in time, we would expect to see a mix shift back towards the larger units.

I think one of the things and themes that we feel really good about is the tremendous efforts that our team has put in to ensure our content levels while the mix has been changing. So, our content numbers have stayed resilient and strong because we've been picking up business despite the fact that the units are smaller and there is less content going in. We haven't lost business, and our team has been gaining business. So again, the resilience of the content numbers in alignment with what we're seeing as it relates to smaller units gives us confidence. And especially when we see the units inflect back up, we would expect those content numbers to go up.

Noah Zatzkin
Really helpful. Maybe just one more on RecPro. In terms of like your ability kind of in terms of speed to market, in terms of getting your brands on the RecPro platform and then beginning to market RecPro products even to OEMs, like is that a synergy dynamic that should benefit next year, or is it more kind of a '26 dynamic? Or just any color in terms of kind of speed to augmenting and benefiting that business. Thanks.

Jeff Rodino
Yes, this is Jeff. As I mentioned earlier, the action items that we put in place have already started to happen. We're starting to see products. We're working through the introduction of products onto their site. We're working through the introduction of their products to the OEMs. And they're continuing to grow their business organically.

I think Andy mentioned a few minutes ago that we're kind of in a little bit of a seasonal low with regards to the aftermarket piece and really what we expected out of RecPro, which honestly gives us a lot of time and their team time to really focus on launching those products. So you'll start to see those products come on board latter part of this year and into the first quarter of next year. So we will see some impact in 2025 for sure.

Andy Nemeth
Yeah, I would characterize it, Noah, as there's more opportunity than we thought amongst our existing product categories. And the to-do list as it relates to the prioritization of products going on to that platform continues to grow above and beyond our expectations. So we expect immediate traction into 2025 as we execute on RecPro.

Noah Zatzkin
Thank you.

Operator
And the next question comes from the line of Joseph Altobello with Raymond James. Please proceed.

Martin Mitela
Good morning. This is actually Martin on for Joe. Just wondering if you can speak to the decline in Marine content per unit and just kind of what needs to be done to show some growth there again?

Andy Nemeth
Sure. That's primarily mix-related. When we think about content, we've got a number of new products. I think we've talked about this before as well. But even as we look across our spectrum, not only in alignment with our Advanced Product Group, which is really looking at solutionizing up our portfolio, but when we look at all the innovations and product development and

prototyping that's happened over the last 12 months, it's just been significant. And so we're very optimistic about the traction that we're going to be able to gain organically.

But as it relates to just content on the marine side, it's really been related to the mix, and we are heavier skewed towards the higher engineered product lines, ski and wake, as we note, and as well on the pontoon side of the business. And those OEM shipment levels are greater than kind of the overall industry shipment levels as it relates to the reduction that we've seen. So that's the primary reason on the Marine side of the business. But we are picking up business as well on that side. And so we do feel kind of similar to what we feel in RV. We see a little bit of a mix shift, we see production rates kind of inflect, we do expect to pick up content on the back end of this.

Martin
Great. Thank you. That's it for me.

Operator
And the next question comes from the line of Craig Kennison with Baird. Please proceed.

Craig Kennison
Hey. Good morning. Thanks for taking my questions. I appreciate the extra color on 2025 as well. And maybe we can start there. I think, Andy, you talked about getting 70 to 90 basis points of improvement, but that's versus your revised 2025 outlook. So you're looking at something close to 8% EBIT margin. Is that math correct?

Andy Roeder
Yeah, Craig, you're thinking correct there.

Craig Kennison
Okay. And then just regarding 2025, you've changed the balance sheet a little bit. I want to make sure we have the right assumption for your interest expense forecast and even share count because I know there's been a lot of noise in that as well.

Andy Roeder
Yeah. I mean, in regard to our refinance, it was just an opportunity to reduce our interest expense, push out maturities, gain some liquidity to keep us on offense. But in terms of our interest rate, we redeemed our 7.5% notes with 6.375%. So that's going to save us about $4 million. In terms of overall debt, that really didn't change. We just used the proceeds to pay down debt on our revolver, and as I noted, those $300 million high yields.

Andy Nemeth
Craig, if you look at where we're at right now, we're running about $80 million of total interest expense for the year, and we do expect some savings on that in the tune of $2 million to $3 million on an overall basis. So I'm going to say $78 million to $80 million if you just assume normalized run rates with where we've been as it relates to interest expense. And then as it

relates to share count, the dilution -- the increase in our stock price has driven this accounting adjustment for dilution. And right now, if you look at kind of where we're at for the quarter, we're 22.6 million shares outstanding. I would say 23 million right now is a reasonable estimate to use for the share count for 2025.

Craig Kennison
Thank you both for that. And then I guess just regarding, Andy, your hope for an inflection next year, is there an interest rate outlook embedded in that optimism?

Andy Nemeth
Yeah. We think the initial interest rate reduction is not enough to really drive the inflection point. So yeah, we do think that we need a couple more rate reductions to kind of instill things. I think as we noted, we would expect just some relief after the election coming up here in anticipation of a rate adjustment or two into the next year. We're hearing from kind of players in the space. It certainly is a tailwind versus a headwind. And so I'm not saying we're banking on significant rate reductions, but I do believe that consumer confidence will improve. And we do feel like there's another one or two rate reductions coming built into our assumptions at this point. So we're being thoughtful about it. We're not saying there aren't going to be any. We would say two to three more rate reductions would be built into our model going forward from this point on, so including what we see in Q4 here.

Craig Kennison
Great. Thank you.

Andy Nemeth
Thank you.

Andy Roeder
Thanks.

Operator
And the next question comes from the line of Tristan Thomas-Martin with BMO Capital Markets. Please proceed.

Tristan Thomas-Martin
Good morning. With kind of this -- at some point, there's going to be a content up-cycle, right? I'm just kind of wondering, are OEMs going to have enough information when they're planning for model year '26 is to be confident to up-cycle and kind of add content, or is that really more of a model year '27 event?

Andy Nemeth
I think that they will move very, very quickly to add content. The OEMs, especially in the RV space, are extremely scalable and have the ability to move production lines and units and models. And

so we would see a very, very quick inflection. And I think that's one of the things that we get excited about as it relates to our position in the marketplace is the ability to make sure that we're positioned to scale with them.

So again, I think that it's a very quick reaction to what they will feel. And they've done equally on the other side of the business. As we watch kind of smaller units come into play, they've shifted very, very quickly. So they are extremely versatile and agile, and we would expect them to shift very quickly with content versus a model year kind of movement towards larger units. They can make those shifts on the fly.

Tristan Thomas-Martin
Okay. Thank you. And then just, I believe you mentioned RecPro's kind of own branded products. Just out of curiosity, where are they strongest? Thanks.

Jeff Rodino
So on the aftermarket side, they're very strong on their air conditioner units, furniture, they play pretty well in the awnings space on aftermarket, and different plumbing and electrical items for sure. But really, they've got a really broad base of products, which allows consumers to come to a website where it's not just one product or -- one product here or there. They've got such a broad array that it gives consumers a great opportunity to get more than just one part when they go to their website. But certainly from the strongest, I would say, furniture, they do a lot of replacement furniture, a lot of replacement air conditioners and awnings and some of those type items.

Tristan Thomas-Martin
Thank you.

Operator
And the next question comes from the line of Alex Perry with Bank of America. Please proceed.

Alex Perry
Hi. I just wanted to ask on sort of the expectation for the shaping of the operating margin next year. Are you sort of expecting continued pressure in the first half given the volume de-leverage with sort of an anticipated rebound in the second half? Thanks.

Andy Nemeth
In general, overall, what I'd say is our model reflects kind of second half strength versus first half. That being said, the RV industry has been in this cycle for longer than the other two have. And they're really -- the inventory levels are where we're very optimistic in seeing the lean level of inventory that's out in the channel.

So we could see some improvement prior to that from our perspective, at least as we're looking at it in the RV space. Right now, Powersports and Marine, we're expecting kind of second half. In

Housing, on the MH side, we expect kind of consistent strength really throughout the year. So it's a little bit of a mixed model. In general, yes, second half versus first half, but I think we could see some strength on the RV side of the business prior to that.

Alex Perry
Really helpful. And then just a follow-up on the Powersports shipments down 10% next year. Any color on sort of the shaping of that? I would presume it's following the trend with RV and Marine, more pressure in the first half compared to the second half.

Kip Ellis
Yeah. Good morning. This is Kip. There's been certainly print regarding the OEM's interest in cutting inventory, particularly with a focus here in this fourth quarter. And so we recognize that, and we're seeing that in the order demand. In Q4, there's some anticipation, and I think it's a proactive position that we're recognizing across the market to really work with their dealers to lean that inventory out. So we could see some of that carrying over in the early part of next year. Again, with our balance being skewed more towards the more resilient premium products, and that's both in the utility side and the sport and rec side, we're not seeing the retail pullback in that area being as significant as some of the more value line or baseline products that are in the market and so, circling back to your question specifically, yes, it's certainly, we're optimistic about the second half of next year and the opportunity for a pivot in the market given the inventory controls that they're going to put in place and lean things out. So with low-single-digits to flat performance from a utility premium product from a retail standpoint, we don't anticipate a lot of inventory to cut, but we recognize they want to be proactive in working with dealers and certainly support that going forward. So kind of the second half, maybe mid-Q2 type thing where we see some opportunity for a pivot.

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

Andy Nemeth
Thank you.

Operator
Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the call back to Andy Nemeth for closing remarks.

Andy Nemeth
Thank you, everybody. Once again, I just want to acknowledge and thank our incredible team members and leaders across the organization and across our brand platform for tremendous commitment, passion, and dedication to this organization. I can't stress enough how strong this team is, the culture that we have in place, and how confident we are in their ability to execute and so just tremendous appreciation for them.

Additionally, I kind of think as we look out at the markets and where we're headed, I think we feel like we're in a great position to flex. We feel like we're really in a position to be scalable when our OEMs need it. And the opportunities that are in front of us today allow us in a position to stay on offense.

And finally, again, I just want to let you know that we look forward to seeing everybody, our institutional investors, analysts at our upcoming Investor Day in December. We look forward to sharing some more information about what we see in '25. And again, just in alignment with the team message and reflecting some of the strength of the team, introduce you to some of our team members and demonstrate kind of who we are as an organization. So thank you, again. Thank you for joining us on the call and look forward to talking to you soon.

Operator
This concludes today's conference. You may disconnect your lines at this time. Enjoy the rest of your day.

Editor

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