PATRICK

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

<u>Q&A Participants</u>
Scott Stember – ROTH/MKM Partners
Joe Altobello – Raymond James
Noah Zatzkin – KeyBanc Capital Markets
Dan Moore – CJS Securities
Tristan Thomas-Martin – BMO Capital Markets
Craig Kennison – Robert W. Baird
Mike Albanese – Benchmark

Operator
Good morning, ladies and gentlemen and welcome to Patrick Industries' Third Quarter 2025 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 "star", "zero", on your telephone keypad. Please note this conference is being recorded.

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

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

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

The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the Company's Annual Report on Form 10-K, for the year ended December 31, 2024, and the Company's other filings with the Securities and Exchange Commission (SEC).

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

Andy Nemeth
Thank you, Steve. Good morning, everyone. We appreciate you joining us on the call, today.

We delivered solid third quarter performance, demonstrating the resilience of our business in a dynamic and unique environment. Net sales for the quarter increased 6% to $976 million, with organic growth contributing more than 4%, and offsetting an almost 2% decline in our industry shipment levels. Earnings per diluted share was $1.01, including approximately $0.07 of dilution from our convertible notes and related warrants. On a trailing-twelve month basis, net sales were approximately $3.9 billion.

Our results reflect both the strength of our diversified business model, solid organic growth as a result of our team's innovation and advanced product efforts, and their incredible execution, as we continue to navigate dynamic demand levels across our end markets and challenges facing the broader economy. Our OEM and dealer partners continue to exhibit disciplined production, leaving inventory even leaner across all of our Outdoor Enthusiast markets and positioning us positively for a potential restock when retail inflects. We remain well-equipped to capture meaningful upside when that inflection occurs, both strategically and organically.

We ended the quarter with a strong balance sheet and total net liquidity of $779 million. Our financial position enables us to remain flexible and nimble in supporting our customers' growth needs with a variety of levers, while continuing to execute a balanced capital allocation strategy. We expect to continue our investments in the aftermarket and new product development, both through heavy emphasis on model year prototyping and in combination with our Advanced Product Group, which is focused on product development several model years out. Additionally, and importantly, we are continuing to invest in digital tools, data analytics, and AI-powered solutions across our business to drive greater efficiency, accelerate decision making, reduce costs, and unlock new value for our customers.

We continue to be proactive in strengthening the Patrick platform through strategic initiatives like the acquisitions of LilliPad Marine, Medallion Instrumentation Systems, and Elkhart Composites, as well as the modernization of our processes, technology, and equipment, and optimizing our aftermarket resources to create new opportunities for our brands. These investments are expected to continue to contribute to our share gains, across our end markets.

Building on strong revenue execution across our primary end markets, we continue to make meaningful progress in expanding our content per unit, or CPU, through a combination of innovation, collaboration, and targeted investment. Our teams are working closely with OEM partners to integrate new products and technologies that elevate the functionality, design, and consumer appeal of products like RVs, boats, and side-bysides. In the third quarter, we achieved content gains across all of our Outdoor Enthusiast markets and our MH market, reflecting both our expanding product portfolio and the growing adoption of our integrated, full-solutions platforms. These content gains underscore the power of our diversified model and validate the continued demand for Patrick's high-valued, individualized, and differentiated solutions that enhance performance, efficiency, and aesthetics across every category we serve.

Subsequent to quarter end, our Marine brands had a successful and prominent showing at IBEX, the marine industry suppliers show. Our increased presence unveiled the scale of Patrick's platform, while reinforcing our commitment to a brand-forward approach and showcasing our innovative product lineup, fully demonstrating the depth and breadth of Patrick's solutions.

At the show, guests had the opportunity to explore our Full Solutions Experience Boat, allowing them to engage with numerous Patrick products, including Medallion's touchscreen displays, Wet Sounds' speakers, BHE harnesses and wiring, Lillipad ladders, SeaDek flooring and lighted cup holders, XT Carbon tops, and Taco seating. I also want to congratulate the team at Taco on their IBEX Innovation Award for their Altura Luxury Helm seat, a new flagship helm chair with a patented stainless-steel frame concealed inside a teak ladderback.

Additionally, I am proud to share that our former President of Marine, Rick Reyenger, was inducted to the NMMA Hall of Fame. With more than 40 years of leadership in the recreational boating industry, Rick has influenced many generations of colleagues and competitors alike.

Finally, I want to again recognize the remarkable efforts of the Patrick team. Their commitment, adaptability, and focus on serving our customers has been extraordinary during these dynamic times and continues to drive a brand-fronted partnership model with our customers. Beyond cyclical dynamics, we expect to drive continued strategic growth through M&A, aftermarket expansion, innovative product development, and our diversified portfolio. Our solid balance sheet and solutions-driven strategy keep us well positioned for sustainable long-term profitable growth.

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.

Looking closer at our end markets, third quarter RV revenue increased 7% to $426 million versus the same period in 2024, representing 44% of consolidated revenue. Our RV content per unit on a TTM basis was $5,055, an increase of 3% from the same period last year. On a quarterly basis, CPU increased 8% sequentially compared to the second quarter of 2025 and increased 9%, year-over-year. The improvement in the revenue and

CPU in the third quarter was driven by our commitment to working with and supporting our customers with model-year innovations as they refine and upgrade their products, coupled with recent acquisitions.

We estimate RV retail unit shipments were approximately 100,100 and according to RVIA, wholesale unit shipments were approximately 76,500 in the third quarter. This implies a seasonal dealer inventory destock of approximately 23,600 units during the period, resulting in an estimated dealer inventory weeks-on-hand of approximately 14 to 16 weeks. This is down from 19 to 21 weeks in the second quarter of 2025 reflecting continued OEM wholesale production discipline. This remains well below pre-pandemic historical averages of 26 to 30 weeks, and we further believe the number of discrete units in the field is well below levels seen during the pre-pandemic period.

Over the last year, we've revealed a long-term strategy related to composite solutions. This highlights our efforts to seize emerging market opportunities through both acquisition and innovation. After several years of early-stage development and prototyping, we recently unified our composite solutions under the Alpha Composites brand name. Alpha Systems is a Patrick brand that is synonymous with high level customer service, providing innovative solutions to RV and MH industries. The team at Alpha Composites will continue to build on the foundation through continued collaboration with our OEM partners. We believe our unified branding approach and dedicated resources will further enhance our competitive position as a leading composite solution provider and innovator in a market where weight, durability, overall cost, and sustainability matter to our customers.

Our third quarter Marine revenues increased 11% to $150 million, outperforming what we estimate were flat wholesale powerboat unit shipments. Our estimated Marine content per wholesale powerboat unit on a TTM basis was $4,091, an increase of 4% from the same period last year. Estimated content per unit on a quarterly basis was up 15% sequentially compared to the second quarter of 2025 and increased 10% year-over-year.

We estimate Marine retail and wholesale powerboat unit shipments were 42,700 and 32,300 units, respectively, in the third quarter, implying a seasonal dealer field inventory destock of approximately 10,400 units. Dealer inventory in the field remains lean at an estimated 16 to 18 weeks-on-hand, down from 20 to 22 weeks in the second quarter of 2025 and 19 to 21 weeks-on-hand last year at this time, remaining well below historical pre-pandemic averages of 36 to 40 weeks. Like RV, we believe the discrete number of units in the field remains well below pre-pandemic levels.

Our broad Marine portfolio and design expertise position us as a key partner to new entrants and our existing base of valued customers alike. New entrants in the pontoon space have begun to leverage the breadth of our offerings and customer services early in their processes. Additionally, related to Andy's mention regarding IBEX, we've identified opportunities in the Marine market related to composites and are now offering a full composite deck solution including composite flooring, woven fabric, and the adhesive that brings it all together, enhancing the strength, sustainability, and ease of installation for our customers.

During the quarter, we completed the acquisition of LilliPad Marine, a Traverse City, Michigan based designer and seller of premium innovative boat ladders, diving board systems and other marine accessories. LilliPad delivers their award-winning and patented products through both OEM and aftermarket channels, deepening our lineup of innovative solutions in the Marine space.

Our Powersports revenue increased 12% to $98 million in the quarter versus the prior year period, representing 10% of third quarter 2025 consolidated sales. Our revenues improved across all Powersports businesses, including those that serve recreation and audio markets, coupled with continued growth in attachment rates for Sportech's products. Entering the fourth quarter, we believe the OEMs and dealers will continue to carefully monitor and manage inventory in the channel, despite some positive retail signals in recent months.

Recently, our Rockford Fosgate brand launched a new 2024+ HD aftermarket solution at Sturgis. This kit includes Rockford's first aftermarket motorcycle amplifier with a built-in A2B digital interface. Not only is this a Rockford first, it is an industry first. This digital amplifier pairs with Rockford's newly launched speakers to create a premium plug-and-play solution for newer Harley motorcycles.

Finally on Powersports, as we have discussed on a number of calls, the utility segment of the Powersports market has shown much better resilience than the recreation market, leading to improving attachment rates with existing customers. We have begun to see an increasing interest in adding HVAC and other creature comforts from some of the traditional legacy Powersports OEMs, which should lead to a broader base of demand for enclosures, which Sportech provides.

On the Housing side of the business, our third quarter revenues were up 1% to $302 million, representing 31% of consolidated sales. In Manufactured Housing, which represented approximately 58% of our Housing revenue in the quarter, our estimated content per unit on a TTM basis increased 2% year-over-year to $6,682.

We estimate MH wholesale unit shipments and total housing starts both decreased 2% in the quarter.

As evidenced by our solid Manufactured Housing content per unit performance in the face of lower industry wholesale unit shipments, our team continues to perform with strong customer relationships, and our ability to align and scale quickly to demand, while maintaining a lean fixed cost structure. Despite recent softness in MH shipments, we continue to believe there is a lack of affordable housing options in the United States, and we believe our solutions can help both MH and site-built housing industries provide quality, cost-effective homes efficiently. We believe lower interest rates and improved customer confidence remain pivotal to unlocking pent-up demand.

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, everyone.

Consolidated net sales for the quarter increased 6% to $976 million. Our team drove increased revenues in both our Outdoor Enthusiast and Housing end markets, including a 7% increase in RV revenues, an 11% increase in Marine revenues, a 12% increase in Powersports revenues, and a 1% increase in Housing revenues. As Jeff noted, we generated solid content gains across our end markets during the quarter.

Our total revenue growth of 6% was comprised of 4% acquisition growth, 4% organic growth, and negative 2% industry.

Gross margin was 22.6% versus 23.1% in the third quarter of last year. The decline reflected items including short-term inefficiencies related to the model-year changeover.

Operating margin was 6.8%, compared to the prior year at 8.1%. This change was driven by the previously described factors.

Our overall effective tax rate was 26.2% for the third quarter, compared to 24.8% in the prior year.

Net income was $35 million, or $1.01 per diluted share, compared to net income of $41 million in the prior year quarter. Our diluted EPS for the third quarter of 2025 included approximately $0.07 in additional accounting-related dilution as a result of the increase in our stock price above the convertible option strike price for our 2028 convertible notes and related warrants. The prior year's diluted EPS included just $0.04 per share.

Adjusted EBITDA was $112 million compared to $121 million, while adjusted EBITDA margin was 11.5%, lower by 170 basis points from the third quarter of 2024.

Cash provided by operations for the first nine months of 2025 was $199 million compared to $224 million in the prior year period. Purchases of property, plant, and equipment were $26 million in the quarter and $65 million year-to-date. This implies free cash flow of approximately $134 million for the first nine months of 2025.

Total net liquidity at the end of the third quarter was $779 million, comprised of $21 million of cash on hand and unused capacity on our revolving credit facility of $758 million. As a reminder, we have no major debt maturities until 2028 and continue to have the financial strength and capital necessary to capture long-term organic and inorganic growth opportunities. At the end of the third quarter, our net leverage was 2.8 times.

In the third quarter, we returned approximately $13 million to shareholders through quarterly dividends. Regarding our share buyback, we remain opportunistic, having repurchased approximately 377,600 shares, year-to-date through the third quarter for a total of $32 million, leaving approximately $168 million left on our repurchase authorization.

Regarding tariffs, our strategy remains unchanged and our teams are actively working with supply chain partners to minimize the potential impact. This remains a dynamic landscape, and we will continue to utilize all of our tools that we believe will help neutralize the absolute impact to our pricing pass throughs, and ultimately mitigate any material impact to our operating margin.

I'll now move to our outlook.

We estimate RV retail unit shipments will be down low-single digits in 2025, with estimated full-year RV industry wholesale unit shipments between the range of 335,000 to 345,000 units, and continue to anchor on equivalent dealer inventory weeks-on-hand year-over-year.

In Marine, we estimate retail shipments will be down high-single digits and estimate wholesale shipments will decline low-single digits, again with dealer inventory weeks-on-hand year-over-year remaining approximately the same.

In our Powersports end market, we now estimate that wholesale industry shipments will be down high-single digits and our organic content will be up high-single digits, offsetting the industry decline as our content continues to grow given ongoing increasing attachment rates for our cab enclosures.

In our Housing market, we estimate MH wholesale unit shipments will be up low to mid-single digits for 2025. On the residential housing side of the market, we estimate 2025 total new site-built housing starts will be down mid to high-single digits year-over-year.

Moving to our financial outlook. We expect our full-year 2025 adjusted operating margin to be approximately 7.0%.

We continue to estimate that our effective tax rate will be approximately 24% to 25% for 2025, implying a quarterly effective tax rate of approximately 26% for the fourth quarter.

We estimate operating cash flow will be between $330 million to $350 million and we estimate capital expenditures will total $75 million to $85 million, as we continue to reinvest in the business, focusing on automation and innovation initiatives. This implies free cash flow of at least $245 million.

For modeling purposes, we'd like to give our initial thoughts regarding 2026 based on where we sit today. We expect RV wholesale shipments to increase low to mid-single digits and RV retail to be flat. For Marine, we expect wholesale shipments to be up low-single digits and retail to be flat. In Powersports, we expect low-single digit shipment growth and low-single digit organic content growth. For MH and housing starts, we expect both to be flat to up 5%. We believe improved consumer confidence and lower interest rates are key factors necessary for our end markets to rebound more aggressively.

Based on these estimates, we expect our operating margin in 2026 to improve meaningfully, an estimated 70 to 90 basis points.

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

Operator
Thank you. We'll now be conducting a question and answer session. If you'd like to ask a question today, you may press "star", "one", from your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press "star", "two", if you'd like to withdraw your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the "star" keys. To allow as many questions as possible, we ask you please limit yourself to one question and one follow-up.

Thank you. Our first question comes from the line of Scott Stember with ROTH Capital. Please proceed with your questions.

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

Andy Nemeth
Morning.

Scott Stember
A lot has been made of some of the increased optimism coming out of Open House. What are you currently seeing from your OEM customers regarding production? What are they telegraphing as far as, you know, their desire to start ramping up production to potentially put more units into the field?

Jeff Rodino
Yes, Scott, this is Jeff. As I look at our production numbers or production numbers from the OEMs, we are seeing, we saw a little bit of a slight increase in October. We're seeing a little bit more of an increase in November. We do feel like just the pure production numbers would tell us that there is some ramping up, to what degree that'll, you know, be consistent through, you know, into the first quarter.

But right now, we're seeing a little of that. As I look forward, after this week, we really only have six more weeks of production in 2025 with a week off for Thanksgiving. There is some production in Thanksgiving, and then we'll take two weeks off for Christmas.

So, I think early indications are, if I look year-over-year, we're seeing some increases in the back half of the fourth quarter.

Scott Stember
Got it. Moving over to the aftermarket, I know you guys have been doing a lot of cross pollination with RecPro. Can you give us an update of new SKUs or just, is that accelerating? Just give us an idea of what's going on.

Jeff Rodino
Yeah, Scott, this is Jeff, again. On the RecPro side, we've had several hundred SKUs that have carried over from other Patrick divisions into RecPro this year, so far. We'll be close to 400 or 500 when it's all said and done since the inception of the acquisition.

We are looking to accelerate that a little bit. We've really got them entrenched with our Marine side now and all of our Marine divisions to really start to grow that portfolio within the RecPro site, so really excited. We put a little bit more capacity in that area to help accelerate that, so we're excited about what we've seen so far and what we're going to see going forward.

Andy Nemeth
One of the other things, Scott, this is Andy, is that we just formally launched our aftermarket strategy, which includes a combination of not only direct-to-consumer, but direct-to-dealer and third-party distribution. We've rolled out a formal strategy. We're implementing structure to really kind of formally launch an overall vision for where we want to take the aftermarket in alignment with our RecPro platform on the direct-to-consumer side. So, we're looking forward to really driving some real value in the aftermarket.

Scott Stember
Got it. Just a little bit more granularity on your comments about the 70 to 90 basis points of operating margin expansion next year. I assume there will be some sales growth. Just trying to get a sense of how much is sales leverage, how much is internal self-help, like things that you have going on like automation and AI, things like that. Just trying to flesh that out.

Andy Nemeth
Sure, Scott, this is Andy. A lot of it's going to be sales leverage. But I would also tell you, content gains, the solutions that we're putting together for customers, allowing them to reduce cost overall but allowing us with more product content with our customers is going to add value there. I think as it relates to the automation efforts, we're going to continue to push forward, aggressively, on automation amongst our facilities and continue to invest

in Capex. We're definitely picking up nickels and dimes along the way as it relates to the automation efforts that we expect to see. So, a combination of all of those across the platform drives that margin improvement, and certainly volume plays heavily in there, especially if we go above and beyond kind of our industry expectations. So, we expect to be able to really leverage our fixed cost structure today. We don't need to add a lot of overhead to support significant incremental volumes.

Scott Stember
Gotcha. That's all I have. Thank you.

Andy Nemeth
Thanks.

Operator
Our next questions come from the line of Joe Altobello with Raymond James. Please proceed with your questions.

Joe Altobello
Thanks. Hey guys, good morning. I guess just to follow up on that operating margin commentary, obviously the outlook for 2026 is encouraging, but it sounds like you're looking for operating margin this year toward the lower end of your prior range. What's kind of weighing on margin this year ahead of the 2026 improvement?

Andy Roeder
Joe, here in the third quarter, we really experienced some model change inefficiency. If you look back through the first couple quarters, we've seen gross margin expansion driven primarily by the addition of our direct-to-consumer aftermarket business, RecPro, last fall. Along with that came a heavier OpEx profile. This quarter our OpEx is in line, but we just had some, I'll call them one timers, short-term investments. We brought on significant new business here in the quarter. CPU was up 9% and 10% for RV and Marine. So, significant new business and with that, just come some material and labor inefficiencies.

Joe Altobello
Got it. Okay. And in terms of what you're seeing so far in terms of production and shipments in October and November, I think it was on the last call, you guys thought that we might see some sort of restock either in the fourth quarter or maybe the first quarter of next year. Are you starting to see that potential restock, or is this just kind of noise at the end of a year?

Jeff Rodino
I think there might be a little bit of potential restock. I mean, we're getting ready to get into the selling season. You know, you got Tampa right around the corner at the beginning of January. I think if you noted during the prepared remarks, 14 to 16 weeks-on-hand is extremely low. I mean, that's really the lowest we've seen since the pandemic where it

was in the high-single digits of weeks-on-hand back then. So, there's a lot of room there. The end of 2025, we're at about 17 to 19 weeks-on-hand. So, there's got to be a little bit of restock in there to be able to get the right units on the lots and be prepared for the selling season that's going to come in the first quarter.

Joe Altobello
Got it. Okay, thank you, guys.

Operator
Our next questions are from the line of Noah Zatzkin with KeyBanc. Please proceed with your questions.

Noah Zatzkin
Hi, thanks for taking my question. I guess first, maybe if you could expand upon how you're thinking about CPU opportunity in 2026. Within that, you talked quite a bit about composites, so just would love to hear some more thoughts on how that kind of plays into CPU opportunity. Thanks.

Jeff Rodino
This is Jeff. In 2026, we expect all of our businesses, as we always do, to pick up anywhere between 3% and 5% organic growth. Our expectation is composites is going to be a big part of that. I would tell you, if we look right now where we sit today, we believe the total addressable market in that composite area is about $1.5 billion. If you net out some of the cannibalization that may happen, it's close to $1 billion.

Our teams are poised and ready to attack that piece of the market. I think with some of the other things going on in the market that that opportunity continues to be very strong. Again, our APG groups are coming up with new product development both on the Marine, RV, and Powersports side. We believe that the further, I guess, increased attachment rate on the Powersports side is going to give a lot of opportunity to Sportech as more and more OEMs are looking to go to that full attachment. So, I think across all of our markets we have a lot of opportunity to grow that CPU and continue to grow the business.

Noah Zatzkin
Really helpful. Maybe just one more, maybe an update on just M&A and what you're seeing out there and kind of how you're thinking about that. Thanks.

Andy Nemeth
Sure, Noah, this is Andy. On the M&A front, we've been really active in the last quarter for sure, as it relates to cultivating the acquisition pipeline. We've got candidates identified, really, across our markets, and we've been out actively talking, building that pipeline up. But as well, we're starting to see more deal flow come at us from outside sources, as well. So, both the organic side of it, we're working with potential targets, as well as the deal feed coming in from investment bankers has increased over the last, probably 30 to 45 days in particular, so we're seeing increased activity on the M&A front.

Noah Zatzkin
Thank you.

Operator
Our next questions are from the line of Daniel Moore with CJS Securities. Please proceed with your questions.

Daniel Moore
Thank you - good morning. I appreciate all the color. Obviously, appreciate the color about dealers' weeks-on-hand, both in RV and Marine. As you talk to OEMs and dealers, we have this sort of historic backdrop of what averages look like, pre-pandemic. Do you have a sense for or guess for what a new normal could look like in terms of weeks-on-hand in those key end markets when we get back to say low to mid-single digit retail growth cadence?

Andy Nemeth
Dan, this is Andy. If we look at historical numbers, pre-pandemic, pre-pandemic RV weeks-on-hand was roughly 26 to 30 weeks and Marine weeks-on-hand was roughly 36 to 40 weeks, pre-pandemic. So, if you look at where we're kind of sitting today, RV at 14 to 16 weeks and finishing out last year at roughly, let's just call it 18 weeks, we definitely think there's some restock needed. We absolutely feel that the inventories in the channel today, across the spectrum, are low and that there is a restock needed even in the current environment. So, we feel like there's some restocking needed. We don't expect to see the historical pre-pandemic levels, 26 to 30 on RV and again, 36 to 40 on Marine. That being said, we definitely know, and we feel like it's bigger than where we're at today.

Marine, today, as Jeff mentioned, 16 to 18 weeks-on-hand. Last year, at the end of the year, we were at 22 weeks. So, again, we feel like there's some restock coming and needed. We do feel like inventories are low, but we do think, I'm going to say, you know, let's just say 22 to 24 weeks is probably a good range to kind of think about right now, at least in our estimation. We also know that dealers have gotten really good at working with less inventory. That being said, we also do feel across our spectrum, and we have multiple touches with the dealer network, whether it's our transportation business or whether it's our touches with the OEMs or dealers themselves, we get a feel that inventories are lean and that dealers will need some more balance out there. We do feel like there's some, again, restock needed.

Daniel Moore
Really helpful. Switching gears, initial guidance for 2026 implies operating margin getting back close to 8%. As you look across the businesses and when demand starts to return, where do you see the most significant capacity and strongest kind of incremental margins and opportunity for further expansion beyond that across the various businesses?

Andy Nemeth

Sure. Given what we've done with our business, our team's discipline and really managing their businesses, some of the consolidations that we've done, but as well, just really maintaining a lean operating structure and continuous improvement environment, there is leveragability across all of our pillars and all of our business segments. Incrementally, there's a few puts and takes but overall, I'd tell you, there's significant incremental opportunity for us to leverage the business in each of our markets.

Daniel Moore
Got it. If you did and I missed it, forgive me. Can you maybe quantify in ballpark terms the impact of inefficiencies related to the model-year changeover this quarter?

Andy Roeder
Yeah, Dan. I mean, we saw in the first two quarters our gross margin expand by near 100 basis points. There's some noise in there, you know, with tariff impacts and timing, but for the most part I think we expect a meaningful gross margin expansion driven by our RecPro direct-to-consumer margins in that acquisition last fall. So, we were down 50 basis points. I guess I'd expect us to be up, you know, 50 basis points, that ballpark as we look forward.

Daniel Moore
Got it. Helpful. Thank you. Appreciate it.

Operator
The next question is from the line of Tristan Thomas-Martin with BMO Capital Markets. Please proceed with your question.

Tristan Thomas-Martin
Hey, good morning. Do you have any kind of thoughts, or have you seen any of the consumer kind of changes based on model year '26 pricing being up, call it, mid to high-single digits?

Andy Nemeth
Can you repeat that question, Tristan? Sorry.

Tristan Thomas-Martin
Yeah, just asking, with model year 2026 pricing up, mid to high-single digits, kind of like-for-like how are you seeing consumers and dealers react to that?

Jeff Rodino
Yeah, this is Jeff. I think they've certainly passed that along into the channel. As we could tell, we did see some increased retail year-over-year in June and July. That came down a little bit in August. Overall, we can only tell you where the production numbers are telling us right now since we haven't really seen retail for September and October. So, once we see those, we'll get a better feel overall of the retail demand. But from what we can tell from production levels and where we think wholesale shipments are going, there's still

demand out there and we feel good that they've been able to absorb that into the pricing. We have seen a little bit of interest rate help, which certainly will help mitigate some of the pricing that's happened. Overall, we feel good about kind of where the pricing's ended up.

And I think that, as far as what tariff noise had been out there earlier in the year, we've got a few more countries they need to sort some things out with. But as we look, we've been working very closely with customers. We know that affordability is a big concern and partnering with our customers to help with that affordability is something that we've been very active in over the last quarter.

Tristan Thomas-Martin
Just kind of the obvious follow-up, how's the production mix been looking in terms of like are we seeing, maybe a little shift towards fifth wheels and away from single axle?

Jeff Rodino
Yeah, we've seen a little of that. I mean, it certainly does occur a lot of times in the fall where we'll see a little bit more on the fifth wheel side, as you get the full-time RVers, they're going to use it for the full winter, getting into a fifth wheel versus the smaller entry level. Certainly, the mix is not back to what I would call a normal mix that we've seen in the past with fifth wheel and travel trailer and the smaller travel trailers, but we have seen a little bit of a shift in the third quarter. We expect that that'll stay for the fourth.

If we get into the first part of next year. I think the dealers were so, kind of, keen on the entry level product for most of 2025. As we see that they need to refill some of the stock that's out there, I think we're going to see that's going to be in some of the mid to higher end product. So, we feel good about where the mix is at. I don't think it'll go backwards into the more, small travel trailers, but we're keeping an active look at that.

Tristan Thomas-Martin
Okay, got it. And then, just squeeze one more. Is there any way to think about the composite $1 billion addressable market opportunity, kind of how that breaks out across your end markets? Thanks.

Jeff Rodino
Yeah, it's primarily in the RV market right now. When you look at the roofing and flooring solutions that we're providing, something that we're really not into that business right now with roofing, flooring, and slide outs. The interior and exterior skins are something that we're participating in right now. And we're very active in shifting from some of the wood products that we're currently selling into composites. And we feel really good about all the prototyping that we've done and the activity and the products we've been able to bring to market. Certainly, we see some opportunity on the Marine side. It's pretty fresh on the Marine side. We've done a lot on the wood products within Marine, and now we're starting to shift over into some of the composites. So, I would tell you that the majority of what we talked about in the addressable market is going to come on the RV side to start with.

Tristan Thomas-Martin
Thank you.

Operator: The next question is from the line of Craig Kennison with Baird. Please proceed with your questions.

Craig Kennison
Hey, thanks for taking my question. Apologies for joining a little late. I wanted to ask about Slide 15, talking about Powersports organic content growth up low-single digit. What is driving that?

Andy Nemeth
Hey, Craig. Without question, content gains that we've seen as it relates to attachment rates for our enclosures in particular, we've seen, as we've talked about kind of the utility side of the business, which is really where we've got tremendous focus, being more resilient than the rec side of it. That being said, the overall take rate continues to go up on enclosures and the continued take rate on HVAC systems, which in the side-by-side markets continues to go up. So, we're seeing that, we're seeing some new entrants come into the market in 2026, but as well, some of the product innovations that we've had teed up over the last couple of years are expected to continue to drive content as well. So, we're excited about not only the uptake rate but some of the solutions we're bringing and the opportunity for us to really exhibit our full solutions model, as well into the powersports market. Not only an enclosure, for example, but also a sound system, a wiring harness, a dash panel, instrumentation system, all combined into one solution for our customers, going forward. So, a tremendous opportunity for us to continue to realize additional content gains in the side-by-side market.

Craig Kennison
Thanks, Andy. And then, maybe just to follow up on the RecPro topic, how do you manage any channel conflict that might come about from setting up a direct-to-consumer platform?

Jeff Roeder
Yeah, Craig, this is Jeff. I don't see a lot of channel conflict in what we're doing. Prior to having RecPro on board, which gives us that direct-to-consumer avenue for our products, we had very little aftermarket touch points. If you look at the content that Patrick is putting into RVs and Marine, and then not really having an outlet to be able to get that product into the hands of the end consumer, this is really just giving us that avenue so I don't see a lot of conflict there.

Craig Kennison
Thank you, Jeff. Maybe finally on the MH side, what will it take to see a more sustained recovery? It feels like there's ample need for affordable housing and we're going to get interest rates moving in our favor. What are your industry contacts suggesting is necessary for that really to take off?

Andy Nemeth
Sure. Craig, this is Andy, it's a good question. I think as we look at the MH side of the business, we certainly continue to believe, you know, in the model that it provides the low cost alternative, especially for first time entrants into the housing market. Historically, MH has run 9% to 11% of single-family housing starts if you go back in history. And we continue to see that, you know, trend continue. As far as I'm concerned, as we continue to watch that, we're going to continue to look for an inflection point where we see that trend change a little bit, we see a greater percentage of single-family housing starts is our indicator. But overall, the model, the narrative makes a lot of sense, especially with where things are at. We just think some of the pent-up demand needs to be released into that market, but we're fully supportive of it. And as well, the quality of the homes have gotten so much better over the years. And so, it really is an attractive solution. We're as well, waiting for kind of that inflection point.

Craig Kennison
Thanks, Andy.

Operator
As a reminder, if you'd like to ask a question today, you may press "star", "one" from your telephone keypad. Our next question comes from the line of Mike Albanese with Benchmark. Please proceed with your questions.

Mike Albanese
Yeah, hey, good morning, guys. Thanks for taking my question. I just want to touch on, Craig had asked a question about the Powersports segment. As we think about attachment rates and products like HVAC and audio, is it possible to kind of frame, you know, maybe from an industry standpoint, what percentage of the overall utility industry comes with enclosures?

Andy Nemeth
Let me think about that for a minute, Mike. The percentage of the industry, probably, today--

Mike Albanese
--Utility side by side, like how, you know--

Andy Nemeth
How many utility vehicles are coming with enclosures? I mean, probably 60%, 70% is a guess. I can't tell you exactly.

Jeff Rodino
It is definitely going to be heavier on the utility side versus the side-by-side, Mike. And then, we're dealing primarily with a couple of the large manufacturers. There are some of the manufacturers out there that aren't even offering that yet, but we believe that's a big tailwind for us when they start to go into that market. So, within our customers, it's that

60%, like Andy was talking about, but the overall market, I think there's opportunity beyond that.

Mike Albanese
Yeah, that's exactly where I was going with the question. Just to get a sense of, you know as just enclosures proliferate with that comes more opportunities to drive new product and increase attachment rates just trying to get more of a sense of that dual tailwind.

Andy Nemeth
--Not only that, Mike, but the frame, not only do some come with a frame, right? Some come with a windshield. The attachment to add doors, to add windows, then the additional content that we've talked about on top of that from a solution perspective kind of all play into that.

Mike Albanese
Got it. Thanks.

Operator
Thank you. Thank you, ladies and gentlemen. I'll turn it back to Andy Nemeth for closing remarks.

Andy Nemeth
Thank you. Once again, I just really want to acknowledge and thank our incredible team for just their continued efforts, dedication, passion, for really partnering with our customers, bringing new products to market, managing the tariff situation, and continuing to deliver consistent and predictable results. I'm just so proud of the team and all their efforts, and as well I want to thank our customers for their tremendous support through these incredibly dynamic times, as we continue to really work to partner, to make sure we're promoting the industry as a whole in alignment with their goals and objectives. So, I really appreciate all the efforts of the team. We will continue to push forward. I think there's a ton of opportunity for Patrick, as we look at where the industries are teed up and where they can go. Not only that, the resilience and scalability of our model and the ability to inflect when our customers need it, I'm really excited about. Once again, thank you very much for joining us. We look forward to talking to you after our fourth quarter results.

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

Editor

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