MarineMax, Inc. (NYSE:HZO) Q3 2024 Earnings Conference Call July 25, 2024 10:00 AM ET

Company Participants

Scott Solomon - Investor Relations, Sharon Merrill Advisors
Brett McGill - President and CEO
Mike McLamb - Chief Financial Officer

Conference Call Participants

Michael Swartz - Truist Securities
Sean Wagner - Citigroup
Drew Crum - Stifel
Joe Altobello - Raymond James
Eric Wold - B. Riley Securities
Brandon RollÃ© - D.A. Davidson
John Healy - Northcoast
David MacGregor - Longbow Research

Operator

Good morning. Welcome to the MarineMax Fiscal 2024 Third Quarter Conference Call. TodayÂ's call is being recorded. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

At this time, I would like to turn the call over to Scott Solomon of the companyÂ's Investor Relations firm, Sharon Merrill Advisors. Please go ahead, sir.

Scott Solomon

Good morning and thank you for joining us. Hosting todayÂ's call are Brett McGill, MarineMaxÂ's President and Chief Executive Officer; and Mike McLamb, the companyÂ's Chief Financial Officer. Brett will begin the call by discussing MarineMaxÂ's operating highlights. Mike will review the financial results and then management will be happy to take your questions. The earnings release and supplemental presentation can be found at investor.marinemax.com.

With that, IÂ'll turn the call over to Mike.

Mike McLamb

Thank you, Scott. Good morning, everyone, and thank you for joining this call. IÂ'd like to start by reminding you that certain of our comments are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995.

Any forward-looking statements speak only as of today. These statements involve risks and uncertainties that could cause actual results to differ materially from expectations. These risks include, but are not limited to, the impact of seasonality and weather, global economic conditions and the level of consumer spending, the companyÂ's ability to capitalize on opportunities or grow its market share, and numerous other factors identified in our Form 10-K and other filings with the Securities and Exchange Commission.

Also on todayÂ's call, we will make comments referring to non-GAAP financial measures. We believe that the inclusion of these financial measures helps investors gain a meaningful understanding of the changes in the companyÂ's core operating results. These metrics can also help investors who wish to make comparisons between MarineMax and other companies on both a GAAP and a non-GAAP basis. The reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures is available in todayÂ's earnings release.

With that, let me turn the call over to Brett for an overview for the quarter. Brett?

Brett McGill

Thank you, Mike. Good morning, everyone, and thank you for joining us. Our teamÂ's exceptional performance drove 5% topline growth in the third quarter, despite the challenging retail environment across the marine industry. To deliver solid same-store sales growth of 4% in this environment is a testimony to the strength of our strategy and our team.

With aggressive marketing and promotions, we were able to generate an increase in boat revenue, complemented by nice contributions from our superyachts group, marinas, and finance and insurance businesses.

At the industry level, the aggressive promotional environment continued in Q3 amid elevated inventories, interest rates and persistent concerns about inflation. The weakened consumer sentiment was evident in U.S. powerboat registrations. According to data from statistical surveys, the fiberglass segment, which drives much of our revenue, was down in the quarter.

While the premium end of the market is performing better than the value segment, and as we have said all year, itÂ's not without its challenges. We continue to communicate regularly with our manufacturing partners to ensure they are getting accurate, real-time information about the retail environment. Our manufacturing partners have responded with increased incentives and promotional support to help drive sales.

As expected, gross margin of 32% was down from last year due to higher promotional activity. Our stated goal when we initiated our higher margin growth strategy many years ago was to improve and sustain our gross margins above 30%, which we have achieved for 15 consecutive quarters.

With industry-wide boat margins having settled back down to pre-COVID levels or lower in certain categories, our strategy to structurally enhance the long-term operating profile of MarineMax has resulted in a stronger and more resilient company. We credit that to the acquisitions of IGY Marinas, Fraser and Northrop & Johnson, as well as many other marina and storage-focused entities, among others.

Our strategic vision for the recreational marine industry has centered on leveraging our decades of experience, relationships and customer service excellence to build a meaningful presence in higher margin year-round areas of the business.

Supported by our strong balance sheet, the strategic acquisitions we have completed over the past several years have significantly expanded our geographic reach, broadened our product offerings and increased our customer base, giving us touch points across the entire recreational marine ecosystem.

The vision for our business is to provide the worldÂ's best boating and yachting experience, backed by premium brands and exceptional customer service. When our customers travel to a marina, our goal is to make it one of our destinations. When they store their boat, we want it to be a MarineMax storage location. When they have a need for financing or insurance, superyacht management or to plan a Caribbean vacation, we want our offerings to be first in mind.

Through our industry-leading technology and digital tools such as Boatyard and Boatzon, we drive great experiences for our customers and high levels of engagement. We are delivering on that vision and believe that the future power of the brand and our platform has never been stronger.

I would add that each of the businesses we have acquired over the past several years has generally met or exceeded our expectations and also brought an increased base of talent into MarineMax.

The recent formation of our new SuperYacht Division, SYD, which we previewed on prior earnings calls, is an example of how we are able to generate increasing operating and commercial synergies across our portfolio.

The SYD integrates the operations of Fraser Yachts, Northrop & Johnson, Fairport Yacht Management, SuperYacht Management and Atalanta Golden Yachts, streamlining the back office functions of these businesses into a unified entity.

Our expansion into superyacht services began many years ago to support our Azimut, Galeon, and Ocean Alexander customers, along with others from our retail dealership operations as they migrated to increasingly larger yachts.

The complexity of these vessels demanded specialized services, which our SYD companies are exceptionally well positioned to provide. The creation of this new division also creates opportunities for us to increase synergies between the SYD and our IGY portfolio to expand our international customer base.

As part of our long-term operational improvement plan, we initiated strategic cost-cutting actions to better align our expense structure with the current operating environment and improve operating leverage. Some of our actions will increase toward the end of the selling season and into fiscal 2025. We expect increasing cost savings from these and other initiatives, contributing to enhanced cash flow over the longer term.

On the governance front, during the quarter, the board appointed Dr. Rebecca White as Chair of our Board of Directors. Dr. White, a MarineMax Director since 2018, brings a wealth of expertise to this pivotal role. As the James W. Walter Chair of Entrepreneurship and Director of the John P. Lowth Entrepreneurship Center at the University of Tampa, she offers invaluable insights in governance, strategy and organizational development. Her leadership will be instrumental as MarineMax continues to execute its value creation strategy.

We recently announced the retirement of three esteemed Board members. First, our Founder and Executive Chairman, Bill McGill, who spearheaded MarineMaxÂ's growth over a career in the marine industry spanning more than 50 years. On behalf of all of the team members of MarineMax, I want to thank Bill for his vision to transform our industry. He is truly a pioneer.

I also want to acknowledge the work of two other distinguished Board members, Joe Watters and Charles Oglesby. On behalf of the entire Board, I extend our gratitude for their enduring contribution to MarineMaxÂ's success.

During our second quarter call, I briefly discussed the situation concerning our marina operations in Cabo San Lucas and mentioned that we were actively pursuing appropriate remedies. While the situation is fluid, we have been operating the marina since early May as we continue to work on longer-term remedies. Given the nature of the process, we are unable at this time to provide further comments.

And before I turn the call over to Mike, I also want to address recent public comments from Island Capital Group. As we stated in the press release we issued on July 12th, our Board is open-minded and regularly evaluates bona fide opportunities to enhance shareholder value. The Board is always open and responsive to input from key stakeholders and we have spoken with Island Capital on several occasions.

MarineMax will continue to make decisions and take actions that we believe are in the best interest of the company and our shareholders. TodayÂ's call is focused on our results, strategy and guidance, and we donÂ't plan to comment further on this matter.

Now let me turn the call over to Mike for the financial review. Mike?

Mike McLamb

Thank you, Brett, and good morning again, everyone. IÂ'd also like to start by thanking our team for their efforts in producing a strong quarter despite the ongoing industry challenges. For the quarter, revenue grew 5% to approximately $758 million, reflecting same-store sales growth of 4% and contributions from acquisitions including Atalanta Golden Yachts, C&C Boat Works and Williams Jet Tenders. This is the first full quarter that Williams has been part of MarineMax and their performance in the quarter exceeded our expectations, reflecting the strength of their exceptional team.

Despite the industry-facing unit declines this quarter, we maintained our unit sales at nearly the same level as last year, resulting in market share gains. This resilience in a challenging market not only demonstrates our companyÂ's strength but also positions us strategically for future growth.

For the quarter, as expected, gross margins declined due to pressure on boat margins. On a consolidated basis, however, margins of 32% reflect the benefit of the higher margin business expansion strategy as Brett mentioned.

SG&A expenses increased 6%, excluding transaction costs, changes in contingent consideration and other items identified in the earnings release. As Brett mentioned, given industry trends, we did initiate cost reduction

actions during the quarter, which did include select store closings and reductions within our team. These actions will continue to positively impact our expense structure as we move through Q4 and also fiscal 2025.

Interest expense increased as a result of rising interest rates and increased inventory as expected. Adjusted net income was $34.8 million or $1.51 per diluted share, compared with $46.5 million or $2.07 per diluted share last year. Adjusted EBITDA for the quarter was $70.4 million, compared with $83.5 million last year.

Turning to the balance sheet, cash and cash equivalents at June 30th increased to over $242 million. Inventories at quarter end decreased sequentially from March, consistent with historical trends and our expectations. More importantly, our aging of inventory continues to lead the industry as monitored by our industry-leading floor plan lenders and is generally in great shape, especially considering the environment. On a same-store basis, comparable unit inventories are more than 30% below 2019 levels.

Turning to liabilities, our short-term borrowings, which is our floor plan financing, was up primarily due to increased inventory. Customer deposits, as expected, declined both year-over-year and sequentially, given seasonality and the availability of inventory, which is generally consistent with historical patterns.

Debt-to-EBITDA net of cash was a little over 1 times at quarter end, as we continue to maintain a strong liquidity position. We have additional liquidity in the form of unlevered inventory and roughly $200 million in available lines of credit.

Turning to guidance, based on our year-to-date results, challenges in the industry and expectations for the remainder of the year, we are reaffirming our fiscal year 2024 adjusted net income guidance range of $2.20 per diluted share to $3.20 per diluted share and our adjusted EBITDA guidance range of $155 million to $190 million. These expectations do not consider or give effect for, among other things, material acquisitions that we may complete or other unforeseen events, including changes in global economic conditions.

Our guidance assumes an annual expected tax rate of just over 27% and a share count of $23.1 million. The wider range on EPS versus EBITDA is because our non-cash items, like stock-based compensation and depreciation and amortization, grow more meaningfully as a percentage.

For the full year, we continue to anticipate same-store sales growth in the low- to mid-single-digit range and gross margins remaining in the low 30s on a percentage basis. We expect fiscal 2024 SG&A expenses to be elevated above our 2023 level, given our year-to-date performance, but with the year-over-year increase continuing to moderate as we implement additional cost reduction actions.

July continues to reflect the tough retail environment. That said, we expect our team will continue to rise to whatever industry challenges are thrown their way. As of today, our same-store sales for the month of July are trending positively year-over-year, but thereÂ's much work to do to ensure we finish the month on a strong note.

Our Q3 results demonstrate that with the proper level of manufacturing support coupled with our retailing strategies, we are able to generate sales growth and drive significant cash flows in a challenging environment.

With that, IÂ'll turn the call back over to Brett for closing comments. Brett?

Brett McGill

Thank you, Mike. The foundation on which MarineMax was founded 26 years ago remains true today, to provide the worldÂ's best boating and yachting experience by consistently exceeding the greatest expectations of our customers, our team members and our stakeholders.

Today, we have evolved into a highly diversified global business with exclusive distribution rights to more than 40 premium brands, industry-leading super yacht brokerage services and a portfolio of strategically positioned luxury marinas.

We are executing our value creation strategy to enhance the growth and earnings power by acquiring complementary, higher margin businesses and investing in brand expansion, services and experiences for the premium segment.

Our strategic initiatives are yielding results and we anticipate significant performance enhancement as market conditions improve and our newly integrated acquisitions gain momentum.

We will continue to be disciplined in our approach with a core focus on allocating capital to the highest return opportunities that meet our high investment criteria. We are committed to maintaining the companyÂ's long-term financial strength and generating sustained value for our shareholders.

With that, Operator, letÂ's open up the call for questions.

Question-and-Answer Session

Operator

Thank you very much. [Operator Instructions] Our first question comes from Michael Swartz from Truist Securities. Please go ahead.

Michael Swartz

Hey, guys. Good morning. Maybe just to start with guidance, I mean, you reaffirmed your fiscal year 2024 outlook. With two months left in the quarter, it is a pretty wide range. Any kind of, I guess, philosophy or justification around maybe why you did not narrow the range a bit here, again, two months to go in the fiscal year?

Mike McLamb

Good question, Mike. We just produced a pretty good quarter in a tough environment, but the industry clearly is challenged and we ran all kinds of different scenarios, and we just felt it was the most prudent and warranted to leave the guidance range wide like that, just given the uncertainties that are in the industry today.

Michael Swartz

Okay. The -- and then just with the -- I think you said you closed a few dealerships in the quarter and I would assume that is part of the strategic cost reduction plan that you are putting in place. Is there any way at a high level to quantify what maybe the savings and maybe the revenue impact is of closing those locations with some of the other actions you have taken?

Mike McLamb

Probably the best way to look at it, Mike, is last quarter we talked about our first goal is to get our SG&A expense in 2024. The goal was to get it back to 2023Â's level. So, if you look at how we have operated in Q1, Q2 and Q3 now, our SG&A percentage is getting closer and closer. I think we are 20 basis points higher on an adjusted basis at the end of this quarter, but we are still 110 basis higher on a year-to-date basis.

So, our goal overall, if you just do the math on that, would tell you we are trying to get something like $20 million or $25 million out of the company from some of the actions that we have taken.

Brett McGill

I will add that some of those stores are duplicative in a market and should not affect revenue in any way. That was some of the decision in that case.

Mike McLamb

Yeah. That is a good point. The stores that close are largely satellite stores where we have an adjacent store to a hub store nearby, if you will.

Michael Swartz

Okay. That is helpful. Thank you, guys.

Brett McGill

Thank you.

Mike McLamb

Thanks, Mike.

Operator

Thank you. The next question comes from James Hardiman from Citigroup. Please go ahead.

Sean Wagner

Hi. This is Sean Wagner on for James. I just wanted to -- I might have missed it, but what was the breakdown of the same-store sales number between ASPs and units, and then, I guess, what was the same-store sales assumption in your guidance and kind of where do you expect that ASP versus unit trend to go from here?

Mike McLamb

Yeah. Good question, Sean. We had said for the whole fiscal year, low-to-mid single-digit same-store sales growth. We do not give quarterly guidance and we reaffirmed that same low-to-mid single-digit same-store sales growth the full fiscal year.

In the June quarter, we had 4% same-store sales growth. What I said in the prepared remarks was that we held unitsÂ' flat year-over-year. The entire growth is basically an increase in the average unit selling price.

I think it is extremely noteworthy that we are able to hold our unitsÂ' flat year-over-year where -- for fiberglass boat sales, which is primarily what we are selling a lot of. In the month of June, the industry was down 23%. In the month of May, it was down double digits. I think in April, it was down double digits also. I think it speaks to the testimony of the strategies that we deployed and the strength of our team.

Sean Wagner

Okay. And I guess, just on the state of the consumer, sort of when do you think this market bottoms? Do you have any reason to think things get better from here and sort of without -- I guess, just better from here without interest rate cuts and how much would interest rates need to move to spark demand?

Mike McLamb

Yeah. Your guess is as good as ours. Obviously, any signaling of interest rate release would clearly help all consumers and definitely in our marketplace. How much is needed? I do not know that it is a lot that is needed, but something would help. And where are we, I think all of us in the industry want to feel like we are somewhere skimming along the bottom of this cycle trying to figure out how to get level, but it continues to be challenged on a year-over-year basis. But it feels like we are down towards the bottom of this cycle.

Sean Wagner

Okay. Thanks, guys.

Operator

Thank you. The next question comes from Drew Crum from Stifel. Please go ahead.

Drew Crum

Okay. Thanks. Hey, guys. Good morning. You provided some commentary on your inventory. Could you expound on that and maybe give us a sense as to how your position compares to the industry and how you see inventory trending for your business over the next few quarters?

Mike McLamb

Yeah. I can take a stab at this, and Brett can chime in if he wants to. But we get a lot of data from our floor plan letters that would show that we are very well-positioned, especially from an aging perspective relative to the industry overall. There have been a couple of other reports that have tried to compare our inventory versus others. I think we are in pretty good shape. We have been focused on it for a while. Our level of non-currents is pretty low. Our fresh products is higher, obviously. So, all that is good.

The way inventory traditionally, seasonally rises and falls, usually the end of June is a low point and then it begins to rise as you go through the summer. So, I would expect as we get to the end of September, inventories will come up something from where they are now at the end of June. It all depends on what comes in from the manufacturers.

We are, as you can imagine, working very closely with all of our partners about build rates. I think, Brett said, giving them real-time feedback on what is happening at retail, adjusting trends, adjusting product that we are getting daily with our manufacturing partners, just given the fluidness of the industry today.

Brett McGill

Yeah. And I will add that all of our manufacturers have done an outstanding job stepping up with this kind of providing the support needed to push retail. Even with these trends that are shown in the data, they are helping us push inventory through, just great.

Drew Crum

Got it. And then maybe just a follow-up, guys. Just your confidence in your ability to sustain a gross margin at or above 30%. It looks like the rate of decline, year-on-year decline is moderated as you progress through the year, but just confidence that you can keep it in that low 30%s range going forward? Thanks.

Mike McLamb

Yeah. I think that we generally felt confident when we deployed this strategy many years ago that we would be able to keep it up there. I think that what probably confused a lot of people was when boat margins expanded as much as they did during COVID, so it was kind of masking our strategy and so we kept trying to articulate of our margin breakdown, how much of it is boat margins versus how much of it is these higher margin businesses. And clearly, today in the industry, boat margins are at or below pre-COVID levels.

So, we are -- there is no longer this upside in our margins from the product that we are selling. And so the margin you are seeing this quarter at 32% is the reflection of these strategies. And actually, I would probably tell you there may be some upside in those margins long-term because of where the industry is.

You break it down into the new and used boat sales margins are clearly at some of the highest pressures they have been under, right? And then you look at our strategy. Really, some of these acquisitions are very new in the higher margin businesses. And as we continue to integrate, find synergies across the platforms, which we are, the next several years, we think there is opportunity and upside in that.

Drew Crum

Got it. Okay. Thanks, guys.

Mike McLamb

Thanks, Drew. Great question.

Operator

Thank you. The next question comes from Joe Altobello from Raymond James. Please go ahead.

Joe Altobello

Thanks. Hey, guys. Good morning. So, first question, just curious on retail trends throughout the quarter. I think on the last earnings call, you mentioned that April comps were up nicely. So, if you look at the industry data, it seemed to get worse as the quarter progressed. So IÂ’m curious what you guys saw.

Mike McLamb

Yeah. Our April was strong. And I tell you, we finished strong. Despite the data in June, we finished strong. We finished the quarter strong. So, it doesnÂ't mean that May was bad. It wasnÂ't necessarily bad. It just -- it -- we needed a strong June and we had a strong June.

But then geographically, I know you didnÂ't ask that, but no region really stood out as a real bright spot. I think we continue to cite Florida as a good place to be. But the Midwest came alive seasonally. The Northeast did, as you would expect, to a degree, Texas. But, yeah, April was strong, as we said earlier, Joe, and then we finished the quarter with a pretty strong month as well.

Joe Altobello

Okay. Helpful. And then on the cost savings, I think you mentioned earlier, $20 million to $25 million. I assume that encompasses all of the cost savings initiatives that you guys are talking about. And in terms of timing, is that by the end of next year? So weÂ'll see the full benefit of that in fiscal 2026?

Mike McLamb

Yeah. So what -- kind of the way IÂ'm articulating it, Joe, is our first goal is letÂ's get back, letÂ's get our SG&A in line with where it was in 2023. And if you do that math with where we are now, you get to that mid-$20 million range and that would be on a run rate for...

Joe Altobello

Okay. Got it. Thank you.

Mike McLamb

IÂ'll probably add some caveats. Obviously, thatÂ's subject to inflation and other changes and all that stuff. But thatÂ's the goal that weÂ've set out. WeÂ've been making good progress. You can tell just in the current quarter how our SG&A percentages are pretty close year-over-year.

Joe Altobello

Understood. Thank you.

Operator

Thank you. The next question comes from Eric Wold from B. Riley Securities. Please go ahead.

Eric Wold

Thanks. Good morning. So, letÂ's sort of dive into the margins a little bit more. You know that OEM continues to lean heavily on incentives to push sales and reduce channel inventories. But you also noted that boat margins are at or below pre-pandemic levels. So, do you expect OEMs to keep incentives at current levels longer term or if they take their foot off the gas on those when demand improves on lower rates, how much upside can you have on boat margins from here? Does that imply that boat margins on a normalized basis should be above pre-pandemic levels longer term?

Mike McLamb

Good question. Maybe the way IÂ'd answer it, Eric, is boat margins are under pressure today. So, when you look at transaction margins, theyÂ're probably an aggregate a little below where they would have been averaging for most of the years before the -- before COVID, only because of how soft the industry is.

I donÂ't think the industry has seen declines like this if you take out the financial crisis. I donÂ't think the industry has seen declines where itÂ's down 23%, 15%, stuff like that in a long, long time. So I think there is upside from a boat margin perspective long-term. I think on the first part of your question, I think manufacturers are going to continue to help drive retail and work closely with their dealer partners.

Brett McGill

And I would add that their incentives and support are in line with historical trends also. So, I think that kind of plays out normally.

Mike McLamb

Yeah.

Eric Wold

Got it. And then just the follow-up question, kind of thinking about kind of the two groups of buyers that would come into your store, obviously, the value boat buyer that needs financing and maybe a higher end buyer that maybe, at least indicates heÂ's a cash buyer, but he may be financing somewhere else. TheyÂ're going to be in a little bit better position than the value buyer. Have you seen -- on the hiring guys, have you seen any shifts in their demand or any improvements or deceleration demand from maybe the better positioned buyer in recent months?

Mike McLamb

I think itÂ's a general rule that because of the brands we carry, most of our buyers technically are better positioned. But maybe a way to answer the question a little bit is, and BrettÂ's been saying this for a while, from a smaller product to a larger product, including yachts, itÂ's a tough environment out there across the spectrum. People are very selective. They really need a reason to buy today, which weÂ've been obviously unlocked that and find those reasons successfully, but it doesnÂ't really matter where they are on the spectrum is what IÂ'd say is difficult.

Brett McGill

Yeah. And I donÂ't think weÂ've seen any major shift in their appetite to finance with us or finance or not finance or the profile looking much different. NothingÂ's really dramatically changed there. I think you were touching on that in your question.

Eric Wold

No. That helps. Thanks, guys.

Mike McLamb

Thanks, Eric.

Operator

Thank you. Next question comes from Brandon RollÃ© from D.A. Davidson. Please go ahead.

Brandon RollÃ©

Good morning. Thank you for taking my questions.

Mike McLamb

Yeah.

Brandon RollÃ©

First, just given that fiscal year 2024 is almost coming to a close, would you provide any early thoughts on fiscal year 2025 and maybe some puts and takes to think about as we model fiscal year 2025? Thank you.

Mike McLamb

Brandon, thank you. Thank you for the question. We donÂ't get into talking too deeply about 2025 until this year ends and then we state our guidance for 2025. I guess the only thing I would say is, and I may change this commentary a quarter, who knows, but Brett kind of touched on this. ItÂ's hard to think the industry can get a whole lot softer.

Brett McGill

Yeah. And I think you could kind of, weÂ've been pretty consistent for many, many years on how we model our business, although itÂ's changed a lot with a lot of our higher margin businesses, but we model around what do we think the industry units are going to be next year. And we kind of derive a number up or down, usually up from that and I think weÂ'll be consistent with the way weÂ've done it year in and year out with also applying our higher margin business and how theyÂ'll perform. And I think showing this quarter, we feel that those are a touch more resilient and should continue to show that.

Mike McLamb

Right.

Brandon RollÃ©

Okay. Great. And then just one more question. I think you had mentioned you were expecting maybe inventory levels to maybe start rising in September, I guess. Are you kind of underpinning maybe two more months of destocking and then dealers are ready to take on more inventory or do you feel like given where kind of industry inventories are at, it could last throughout the remainder of calendar year 2024?

Mike McLamb

I think thatÂ's a great question. I think it really depends on a dealer-by-dealer. I think overall from an industry perspective, thereÂ's a lot of dealers out there who have too much product still and they have too much age products. So theyÂ're going to be hard pressed to take new models of anything today and I think youÂ're seeing that reflected in the earnings reports in the industry today from the different manufacturers that are coming out there.

From our perspective, we are in -- we think weÂ're in a lot better, well, we are in a lot better shape from an aging and a non-current perspective. WeÂ're going to be bringing in product that we think we need for the foreseeable future, and traditionally, that means inventories rise slightly as we head into September. All that depends on retail trends and how weÂ're seeing in July, August and September, obviously, and weÂ'll make adjustments as needed.

Brandon RollÃ©

Okay. Great. Thank you.

Mike McLamb

Thank you.

Brett McGill

Thank you, Brandon.

Operator

Thank you. The next question comes from John Healy from Northcoast. Please go ahead.

John Healy

Thanks for taking my question. Just one question on the gross margins. I know thereÂ's been a lot of discussion of that on the call already, but just wanted to ask it this way. When you kind of look at that and where weÂ're at, I take your comments as being weÂ're at a pretty low point, but IÂ'd love to get your thoughts on how they recover from here and kind of how that process evolves. Is it simply that we need retail or do you feel like the

situation at your competitive dealers will that weigh on gross margins for a period even if you are starting to see some continuation of this retail trend? IÂ'm just trying to understand the pace and maybe some framework of how you think it might get better from here?

Mike McLamb

Yeah. IÂ'll just comment. I think you do need a healthier industry environment. It would be beneficial for sure in terms of inventory levels, all of that, which is happening. There is some data out there that some of the floor plan lenders have shared that is projecting and showing weeks on end dropping at the end of September and then really dropping at the end of December. And whatÂ's driving a lot of that is some level of retail, but also significant drops in wholesale.

So the product coming in isnÂ't replenishing as fast as the sales are going out, which is good. You can kind of check that box that that should be happening here early in our fiscal 2025. So maybe late calendar 2024, early calendar 2025. And then obviously the consumer feeling better I think will help.

And itÂ's a normal cycle. I chalk it up to weÂ're in some type of a cycle now that we as an organization have been through multiple times as a management team and itÂ's not all that uncommon. Margins do contract and then they do rise afterwards.

Brett McGill

Our manufacturers have been great. They know that theyÂ're tough decisions to make to bring some production levels down so that we can kind of start getting ahead of this retail downward trend. ThatÂ's going to help too. But with the industry trends, like Mike said, itÂ's going to be hard to get uptick in those quickly.

John Healy

Understood. Thank you.

Mike McLamb

Thanks, John.

Operator

Thank you. The next question comes from David MacGregor from Longbow Research. Please go ahead.

David MacGregor

Yes. Good morning and thanks for taking the questions. I guess a couple questions. First of all, just around the acquisition cadence, do the cost reduction efforts and maybe the other points of focus in your business right now, I mean, you kind of throttle back on acquisition activity or does this environment kind of accelerate and create a little more motivation around the seller and as a consequence weÂ'd see a little more activity?

Mike McLamb

Yeah. I think the industry trends and kind of wanting to make sure cash flow is in a great place has probably throttled things a little in the past, IÂ'll call it year. But I think thereÂ's opportunities out there and weÂ're keeping an eye as we always do on what we could do to continue to grow.

David MacGregor

Follow the question, just I wonder if we could dig a little further into some of the cost reduction programs and efforts to $20 million to $25 million. And you talked already about maybe closing some underperforming locations. Is that the largest part in terms of the composition of that number or are there other things going on here that are worth talking about?

Mike McLamb

David, thank you. We talked I think on last call, itÂ's a -- weÂ're looking at everything in the business, every line item and certainly facilities costs are a big part of it. It comes with insurance and a bunch of other things that are related to the facilities. So that may end up being the largest overall percentage, although I donÂ't really recall for sure.

But then some level of team member reductions, which weÂ've done and then other just internal costs and spend with different vendor partners that weÂ've really dug into to decide do we need that or do we not or can we renegotiate it. So thatÂ's the goal that weÂ're working on.

David MacGregor

Great. Thanks very much, Mike.

Mike McLamb

Thank you.

Brett McGill

Thanks.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Brett McGill for any closing remarks.

Brett McGill

I want to thank everybody for joining the call today and weÂ'll be hard at work and weÂ'll talk to you on the next quarter call.

Operator

Thank you. The conference has now concluded. Thank you for attending todayÂ's presentation. You may now disconnect.