Snap One Holdings Corp.(Q2 2022 Earnings)

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Corporate Speakers:

- Eric Steele; Snap One Holdings Corp.; Senior VP of Finance & VP of IR
- John Heyman; Snap One Holdings Corp.; CEO & Director
- Michael Carlet; Snap One Holdings Corp.; CFO

Participants:

- Paul Chung; JPMorgan Chase & Co; Research Division, VP & IT Hardware Analyst
- Christopher Snyder; UBS Investment Bank; Research Division, Analyst
- Ketan Mamtora; BMO Capital Markets Equity Research; Analyst
- Keith Hughes; Truist Securities, Inc.; Research Division, MD
- Ryan Merkel; William Blair & Company LLC; Research Division, Research Analyst
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PRESENTATION

Operator^ Good afternoon, and welcome to Snap One Holdings Corp.'s Fiscal Second Quarter 2022 Earnings Conference Call. (Operator Instructions) I would now like to turn the call over to Snap One's Senior Vice President of Finance, Eric Steele. Sir, please proceed.

Eric Steele^ Great. Thank you. Good afternoon, and welcome to Snap One's Fiscal Second Quarter 2022 Earnings Conference Call. As a reminder, this call is being recorded. Joining us today from Snap One are John Heyman, CEO; and Mike Carlet, CFO.

Before we begin, we would like to remind everyone that our prepared remarks contain forward-looking statements, and management may make additional forward-looking statements in response to your questions, including, but not limited to, statements of expectations, future events or future financial performance.

These statements do not guarantee future performance, and therefore, undue reliance should not be placed upon them. Although we believe these expectations are reasonable, we undertake no obligation to revise any statements to reflect changes that occur after this call.

Actual events or results could differ materially. These statements are based on current expectations of the company's management and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our annual report on Form 10-K for the annual period ended December 31, 2021, filed with the SEC.

All non-GAAP financial measures referenced in today's call are reconciled in our earnings press release to the most directly comparable GAAP measure. This call also contains time-sensitive information that is accurate only as of the time and date of this broadcast, August 11, 2022.

Finally, I would like to remind everyone that this conference call is being webcast and a recording will be made available for replay on our Investor Relations website at investors.snapone.com. In addition to the webcast, we have posted a supplemental earnings presentation accompanying these results, which can also be found on our Investor Relations website. I will now turn the call over to our CEO, John Heyman. John?

John Heyman^ Eric, thank you, and welcome, everyone, and we appreciate you spending time with us this afternoon. To start today's discussion, I'm going to review our recent highlights, and then I'll turn the call over to Mike Carlet, our CFO, who will discuss our financial results for the quarter as well as provide our outlook for the second half of 2022. We'll then share some closing remarks and open the call for questions.

As background, Snap One provides a smart living platform that empowers professional integrators to deliver joy, connectivity and security to discerning end customers on a global scale. As a leading distributor to these integrators, we work with our growing network of approximately 20,000 professional do-it-for-me integrators to distribute our proprietary and third-party products through our e-commerce portal and local branches.

We further support our integrator partners with our proprietary software platforms and workflow solutions to allow them to successfully serve their residential and commercial customers across the project life cycle.

Here at Snap One, we believe it is inarguable that all homes and businesses will become smarter over the next decade, and we're positioning our integrators and our company to capitalize on the tremendous and durable growth opportunity in front of us. Our competitive differentiation and the demand for smart living experiences continues to propel our business forward.

Just over a year ago, we became a public company. It's been a challenging yet extremely rewarding year. Since our IPO, our team has successfully navigated through the ongoing impacts of the global pandemic, supply chain and logistics challenges and a continued uncertain economic backdrop complicated by inflation, the war in Ukraine and rising interest rates.

All the while we have continued to deliver for integrator partners and on our financial commitments. I'm extremely proud of our team for their strong execution and accomplishments this past year. Despite any short-term economic uncertainty, our integrator partners remain busy and carry healthy backlogs of work, sustaining demand for our solutions.

A very small percentage of these integrators carry any meaningful inventory. So backlog for them means future revenues for Snap One. Smart Living solutions, such as robust WiFi networking, surveillance and security are must-have for home and business owners.

Further, employees continue to come back to the office, helping drive outsized growth for our commercial applications, other metrics related to housing permits, starts and remodeling, even if down modestly on a sequential basis remain favorable relative to historical averages and drive sufficient demand to occupy the capacity of our integration partners.

Furthermore, home equity values and the health of the high-end consumer remain constructive and in better shape relative to past cycles. Specific to our company, unlike some competitors in certain categories, Snap One has inventory to deliver on a timely basis to our integration partners.

And regardless of the environment, we believe our unprecedented product innovation and investments in our growing local branch footprint will enable us to gain market share. Given our strategic execution and the secular trends I just covered, we remain highly confident in a favorable long-term growth outlook.

Let me take a few minutes to reflect on this past quarter. Financially, we continue to build on our consistent results over the past year. In Q2, we generated net sales of $296.9 million, an increase of 17% from the comparable year ago period. We also delivered adjusted EBITDA of $31.7 million, an increase of 8% from the prior year on an as-reported basis. We have achieved this financial performance despite the many inefficiencies we are absorbing due to supply chain and logistics issues we have cited.

Moving to operational accomplishments. We were proud to be recognized for an industry-best 48 brand leader awards in the recently announced CE Pro 100 Brand Analysis. These awards span our portfolio of products, platforms and services and further establish our place as a leading innovator in the market.

Thank you to our integration partners for their vote of confidence in Snap One. Of course, we are never content with the awards and recognition we received, and we continue to raise the bar for the products we deliver. Here are a few of the major enhancements we made in the past quarter to our platform and product suite.

First, we released an important update to the Control4 operating system, which includes time-saving shortcuts for efficient installs, enhanced user interface controls, improvements to lighting control and faster connection speeds.

This release is providing a more enjoyable experience for end users and an easier installation process for our integrators. We also released OvrC Connect. This new app strengthens control of OvrC systems for both commercial and residential end users and provides integrators with simplified workflow solutions, saving them time while they continue to face their own labor challenges.

And a major evolution of our product set, we recently announced the release of the next-generation core series of Control4 controllers. These controllers are the on-premise brains that power smart living experiences, and they set the foundation for exciting future product releases on the Control4 platform for many years to come. And yes, these controllers are in stock and available today.

Finally, to bolster our entertainment product offering, we launched the Triad PDX speaker series, which pairs Triad's premium audio performance with a simplified installation experience.

We also launched the new SunBrite Veranda 3 line of full-shade outdoor LED TVs, bringing the full quality and features of smart indoor TVs to the outdoors. In the second quarter, we also executed across a range of strategic initiatives, including the following key accomplishments. First, we continued our commitment to growth in adjacent markets with the hiring of a leader focused specifically on the commercial and security markets.

Our Control4 Multi-Display Manager functionality was also recently voted in AV Technology Best of InfoComm 2022 award winner. The Multi-Display Manager enables efficient audio video deployments in commercial settings like sports bars, restaurants, hotels and demonstrates our continued progress and recognition in the commercial space.

Second, we continue to build our omnichannel presence with the opening of a new local branch in Orlando, Florida to serve the Central Florida Metro area, bringing our domestic footprint to 32 local branches at quarter end. Our local branches strengthen existing integrator relationships, add incremental purchase opportunities and expand our integrator network in the local community.

We intend to continue investing in the expansion of our local branch network. Third, we appointed Tom Hendrickson to the Board of Directors and as Chair of the company's Audit and Risk Management Committee. Tom is an accomplished executive and financial expert with more than 30 years of experience, leading high-growth, consumer-focused public companies, and we're thrilled to welcome him to the team.

Fourth, subsequent to the end of the second quarter, we completed the acquisition of Clare Controls. Clare's hybrid automation and security solution addresses the attractive market opportunity between commonly available security systems and luxury level whole home control systems.

We've been the distributor for the Clare product line since 2019 and are excited about the opportunity that Clare provides and to convert a third-party brand to a higher-margin proprietary product. Fifth, as part of our Best Place to Work tenant, we announced and we paid a onetime stipend to a number of our employees and raised our minimum wage to help a segment of vital team members, combat the inflationary forces they see in their own lives.

At Snap One, we believe investment in our team drives returns for our integrator partners and our shareholders. As it relates to our future growth strategy, our success in Q2 continues to reflect the strong execution against our proven playbook to drive sustainable long-term growth.

As a reminder, our growth strategy remains rooted in 5 key pillars: one, increase our wallet share with existing integrators; two, expand our global integrator network; three, innovate with new products, software and tech-enabled workflow solutions; four, develop new software services and revenue models; and fifth, execute strategic M&A such as Staub Electronics and Clare Controls. We continue to make progress on all these fronts as we look to the remainder of 2022 and beyond.

I'm now going to comment briefly on our outlook, and then I'll turn the call over to Mike. We're proud of our performance in our first year as a public company. We've been working hard to build credibility through strong operational and financial execution despite a volatile market backdrop.

To address the supply chain and inflationary cost pressures that we foresee for the remainder of the year, we successfully implemented a pricing adjustment in June. Our pricing adjustment and continued execution give us confidence in protecting the profitability of our business and that of our integrators.

Still, while we maintain our optimism around the near and long-term growth in the smart living adoption category, we do have to consider the current economic environment and our planning. And while we have line of sight into supply chain issues easing, they are not yet behind us. As such, we're prudently managing our costs, including moderating our pace of investment in hiring, coupled with a continued focus on cash flow and balancing inventory investment.

That said, we remain confident in the resiliency of our integrators and our own business, have high conviction in our long-term growth strategy and look forward to expanding our share of a rapidly growing market.

So with that, I'm going to turn the call over to Mike Carlet, our CFO, who will discuss our second quarter financial results and updated 2022 outlook in greater detail. Mike?

Michael Carlet^ Thanks, John. First, we'll turn to our financial results for the fiscal second quarter ended July 1, 2022. As John said, net sales in the fiscal second quarter increased 17.2% to $296.9 million, up from $253.3 million in the comparable year ago period. This growth in net sales during the quarter reflect strong overall demand across geographies, markets and product categories.

Growth was driven by organic growth, including the continued ramp of local branches opened in the past year and the cumulative impact of proprietary product price adjustments taken in the past year, which is offset by a modest FX headwind.

Growth was also driven by the benefit of Access Networks, which was acquired in May of last year and also the incremental sales benefit of Staub, which was acquired in late January of this year.

Overall, we are pleased with the growth we experienced in the quarter and on a 3-year pro forma CAGR basis, the growth is in line with our consistently communicated long-term growth algorithm. Contribution margin, which is a non-GAAP measurement of operating performance, increased 15.2% to $116.5 million or 39.2% of net sales in the fiscal second quarter, up from $101.2 million or 39.9% of net sales in the comparable year ago period.

We did see a sequential quarter-over-quarter increase in contribution margin as a percentage of net sales, which I'll discuss in a moment.

As expected, the year-over-year decrease in contribution margin as a percentage of net sales was primarily related to our local branch expansion and growth strategy, which drove a change in product mix as our local branch footprint skews for third-party product sales. In the fiscal second quarter, third-party product sales represented 29.9% of net sales compared to 28.8% in the comparable year ago period.

As a reminder, third-party product typically has a lower contribution margin as a percentage of net sales relative to proprietary funds. The strategic expansion of our local branch footprint, curated third-party product portfolio remains an important part of our value proposition as we aspire to be a one-stop shop for our integrator partners.

As referenced, on a sequential quarter-over-quarter basis, contribution margin as a percentage of net sales increased from 37.9% in Q1 to 39.2% in Q2. This approximate 140 basis point increase in contribution margin rate was primarily driven by an increase in proprietary product sales mix, moving from 67.7% of net sales in the first quarter to 70.1% of net sales in the second quarter.

The enhanced proprietary product mix was driven by the seasonal product mix shift we typically observe from Q1 to Q2 and was further bolstered by the proprietary pricing adjustments taken year-to-date. Furthermore, given the effective timing date, we expect our most recent June pricing adjustment to have a more favorable impact in the second half of the year that has been reflected in our year-to-date results.

Selling, general and administrative expenses in fiscal second quarter 2022 increased 21.3% to $95.4 million or 32.1% of net sales, up from $78.7 million or 31.1% of net sales in the comparable year ago period. This increase in SG&A expenses during the quarter was primarily due to a $5.9 million provision for credit losses and notes receivable.

This provision was made in connection with the acquisition of Clare subsequent to the quarter end. Certain credit obligations [will likely] to third parties were forgiven or settled at reduced rates.

The remaining increases in selling, general and administrative expenses is related to an increase in equity-based compensation expense of $5.6 million, increased costs associated with becoming and operating as a public company, ongoing investments to support the strategic growth initiatives, wage inflation and the acquired cost of Access Networks and Staub, which we did not own for the full period of the prior fiscal year second quarter.

Over the long term, we continue to expect to achieve operating expense leverage as the business scales and we realize the efficiencies of the unified operating platform. Our net loss totaled $1.3 million in the second quarter compared to a net loss of $1.1 million in the comparable year ago period.

Adjusted EBITDA, which is a non-GAAP measurement of operating performance, increased 8.1% to $31.7 million or 10.7% of net sales in the second quarter of 2022 compared to $29.3 million or 11.6% of net sales in the comparable year ago period.

The adjusted EBITDA growth in the quarter was primarily attributable to net sales and contribution margin growth offset by the increase in SG&A expenses. The decrease in adjusted EBITDA as a percentage of net sales in the quarter is primarily attributable to contribution margin as a percentage of net sales declining year-over-year, along with those public company-related expenses incurred in the quarter that were not [occurred] in the comparable year ago period.

Adjusted net income, a non-GAAP measurement of operating performance increased 19% to $16.5 million or 5.6% of net sales, up from $13.9 million or 5.5% of net sales in the prior year.

Finally, free cash flow, a non-GAAP measurement of operating performance totaled negative $26 million in the 6 months ended July 1, 2022, compared to negative $9 million in the comparable year ago period. The decrease in free cash flow was primarily attributable to net cash used in operating activities and an increase in purchases of property and equipment compared to the year ago period.

Net cash used in operating activities was primarily driven by investments to protect against supply chain uncertainty, resulting in a use of net working capital, including a significant increase in inventory, which year-to-date has increased $64 million since the end of 2021.

Approximately $9 million of the increase in inventory was from the acquisitions of Access Networks and Staub which did not impact actual cash flows.

The remaining increase is related to the [ramp of] local branches, higher average carrying costs and improved stocking levels in key SKUs. Our proactive measures to support our integrated partners with inventory and strategic product categories such as control and networking have enabled us to drive market share and wallet share growth.

At this point, we believe that our inventory level is adequate to support existing demand. And going forward, we expect inventory investment relative to sales growth moderate as we drive efficiency across our integrated platform and start to see normalcy in the supply chain. At the end of the fiscal quarter of 2022, we had approximately $79.4 million in liquidity, including cash and cash equivalents of $31.3 million and undrawn revolver capacity of $48.1 million.

Now before I turn the call back over to John, I'll take just a few minutes to provide an update on our financial outlook for the second half of the year. As a reminder, at Snap One, we provide annual guidance for net sales as well as adjusted EBITDA as we believe these metrics will be key indicators for the overall performance of our business.

Our fiscal 2022 guidance considers our strong fiscal first half performance, our most recent price adjustment effective in June, our acquisition of Clare, which we expect to have a very modest dilutive impact on consolidated results in the short term, ongoing FX headwinds and are anticipated -- and is anticipation of continued market uncertainty.

Considering these factors, we are reaffirming our full year guidance ranges communicated in May in conjunction with our fiscal Q1 2022 earnings. While our business continues to perform well, we acknowledge the uncertain market environment as we look out over the remainder of 2022.

As such, we are taking proactive steps to manage our expense structure to position us to deliver against our adjusted EBITDA goals even as sales trends for the lower end of our guidance range. Overall, we remain highly confident in the financial health of our business as well as our ability to sustainably grow for the foreseeable future.

We expect net sales in the fiscal year ending December 30, 2022, to range between $1.16 billion, and $1.18 billion, which would represent an increase of 15% to 17% compared to the prior fiscal year on an as-reported basis and 17% to 19% after adjusting fiscal 2021 to remove the impact of the 53rd week.

We continue to believe the constricting factors for 2022 net sales growth on a 52-week adjusted basis are as follows. We'll see 12% to 14% growth from organic activities, which includes volume, local branch openings and historical price adjustments, net of FX headwinds and supply chain challenges.

We'll also see 5% growth from the impact of recently completed M&A, including Access Networks and Staub Electronics. Since we already serve as Clare's distributor, the Clare acquisition doesn't change our net sales outlook for the year. On an as-reported basis, the lapping of the 53rd week in 2021 represents a 2% net sales growth headwind. On adjusted EBITDA, we expect a range of between $116 million, and $121 million, representing an increase of 5% to 9% compared to the prior fiscal year on an as-reported basis.

One final update before I pass the call back over to you, John. As a reminder, Snap One's Board of Directors approved a stock repurchase program that authorized potential repurchases of up to $25 million of our common stock from the date of approval, which was May 12 through the end of 2023.

As of July 1, 2022, we had repurchased 94,227 shares of our common stock at an aggregate value of approximately $1 million. Consistent with our capital allocation policy, we will continue to prioritize first, our organic growth investments, next, accretive M&A opportunities; and finally, this opportunistic share repurchase program.

And that completes my summary for Q2. I'll turn the call back over to you now, John, for additional comments.

John Heyman^ Mike, thank you. A few closing thoughts and then we'll hit Q&A. First, with sustainable industry-wide demand, we continue to focus on our Only Here strategy. This includes new product launches, software investments and platform developments, new e-com platforms and our local office expansion, all in service of supporting our integrators to capitalize on the opportunity in front of us and them. We continue to strive to be the one partner that our integrators trust to support and grow their businesses.

Second, our teams continue to work diligently through a volatile macro environment. Priority 1 will remain delivering for our integrator partners to ensure they can keep their projects moving and Priority 1a continues to be protecting our integrator partners and our company's financial performance using price, MSRP and other productivity levers.

Third, we're proud of our results to date as a public company. We believe we've established a track record of consistently delivering on our financial commitments, and we'll continue to focus on driving shareholder value over the long term.

And finally, we remain bullish on our growth aspirations and our longer-term operating model. I'll reiterate, over the next decade, we believe all homes and all businesses will become smarter, driving demand for experiences we offer today and those we can only imagine in the future.

The scale and platforms we are investing in will drive better solutions for the end customer, more capacity for the integrator and growth for Snap One in a way that increases operating margin over time. Our actions in the first half of the year have set us up for what we expect to be a successful second half. Exciting times are ahead for our amazing team, integrators and end consumers. And with that, we will open it up to Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Paul Chung with JPMorgan.

Paul Chung^ Very nice execution here. So just on top line, how do we break down kind of pricing versus volumes and your expectations as we kind of move into the second half? It sounds like your customers are kind of willing to pay per product typically in the higher-end demographic. So where are you finding the right balance there? And kind of any intentions to raise prices further?

Michael Carlet^ Paul, it's Mike. So let me take the last part of that question first. Well, right now, we have not planned any further pricing actions. Certainly, we'll always look at what's happening out there in the market. We reactive to that.

And as we think about the competitive environment and the cost structure that's out there where we have to quarterly, but right now, we feel well positioned with the pricing actions we've taken to date. We feel good about the margin trends that we're on and preserving our margins, both for ourselves and our integrator partners with our changes in MSRP that we made to protect our margins as well.

As we think about the actual results and the forecast for the rest of the year, obviously, the price increases we've made this year and late last year had a significant impact on our growth. And that is the majority of the increase in sales that you'll see. We always are taking pricing action as part of our long-term growth algorithm. Price will always be a component of it, but it's more significant this year than in the past. So in the first half of the year, we've seen demand and volume up slightly with pricing being the more significant impact on our growth.

In the second half of the year, we've moderated our expectations on demand and volume. Currently, we're still seeing good volume growth. We're trying to be cautiously optimistic as we think about the rest of this year.

Our forecast around the rest of this year assumes we continue to hold the pricing actions that we've taken, which again, have been well received by the market and are sustaining. And our expectation on volume is plus or minus flat for the rest of the year as we look out at what the economy is doing in the macro and try to figure out what the heck is going to happen with the economy out there the rest of this year.

Paul Chung^ Got you. And a follow-up on cash flow. You're seeing heavy investments in inventory here, probably driving some nice market share gains, but any update on the full year guide and (technical difficulty) and timing of that? And then where else can we see kind of some efficiencies on working cap to offset some of the inventory levels here?

Michael Carlet^ Thanks, Paul. So we don't guide on inventory, but I would say though is with the inventory that we've seen growth, we feel like our overall inventory balance right now is the appropriate balance. We're still not in the perfect situation when we have the right SKUs in the right spot. We still have a few SKUs and few SKUs that we are looking to make sure we have the right amount, and we're still working with our suppliers to have them.

But overall, we think the current inventory balance plus or minus is where we should be for the current volume we have. So we don't expect to see a significant increase in inventory, although it might pick up just slightly in Q3 as we continue to make sure we have the right path. We do expect to harvest cash over the Q3 and Q4.

Given our long lead times of inventory, we're always looking out 3, 4, 5 months to make sure we have the right products that are out there, but we do think that inventory pieces out there. By the way, we're also working with our suppliers on payment terms in time when interest rates are very low, [payment is] probably on the last list of things you negotiate.

But as we think about the economic environment out there in a rising interest rate environment in terms of moving up the list of things that we talked about with our inventory suppliers to make sure we're getting the right payment terms given the long lead time we had. But we feel really good about the inventory levels about our net working capital position today and don't expect a lot of significant changes as we move forward.

Operator^ The next question comes from Chris Snyder with UBS.

Christopher Snyder^ I also wanted to ask about the back half revenue guidance. It seems like the company was guiding Q3 and Q4 revenue to kind of largely unchanged versus Q2 levels. But I guess my question is, if we have the June price increase coming through, which I believe it was kind of a mid- to high single-digit level and volumes are flattish, wouldn't the back half kind of come in above Q2 levels? Or is there something seasonally maybe that I'm missing in that math?

Michael Carlet^ Chris, yes, there's definitely some seasonality in the business. So Q2 and Q3 are always higher than Q1 and Q4. So there's a little bit of seasonality to it. We do have lower demand and volume expectations in the second half of the year than we saw in the first half of the year. That's a conservative view that we're taking, given the market uncertainty that's out there. But that's where we're managing the business.

We're looking at our cost base. We're thinking about the uncertainty that's out there. We are hopeful that the market demand will hold up. We feel great about our ability to continue to win share.

We feel great about the platforms that we have in our initiatives. But with the uncertainty that's out there, we're forecasting our demand somewhat below what we saw in the first half of the year, which is why you see that guidance in the second half to be pretty consistent with the first half of the year.

Christopher Snyder^ I appreciate that. And then I guess if you kind of think about the integrator level and just the expectation of maybe moderating volumes of Q2. I guess any color you could provide on the backlog or activity at the integrator level?

Or is there any sort of inventory headwind at the integrator level that is maybe causing some of these back half volume decline? Just trying to figure out what are you guys seeing in the market that's making you kind of cautious on volumes into the back half?

John Heyman^ Chris, this is John. I think it's less around the market, and it's more around kind of the macro right now. That's number one. And I'll emphasize what Mike said, we're trying to take a conservative view, both in communicating with you guys, but also in managing the business.

We get anecdotal and we kind of subscribe to certain buying groups surveys around integrator sentiment. Those have remained largely unchanged as we look at them. And so there's nothing there that gives us any concern, whether it's around their sentiment or their backlog or number of new contracts they're signing up.

And we're also cognizant that they're able to go kind of flex kind of their own capacity to the extent they do see anything moving in terms of softness. They've always shown themselves adept at that. So I think what we're saying right now is the capacity of our current integrators is generally fixed. As you know, it's hard for all small businesses to hire labor right now.

That integrator capacity has been a governor for us in terms of growth, which is why we're so focused on adding new integrators to our business. It's also been a bit of a floor for us right now. We look at the integrator capacity. They have a lot of demand coming at them, but they can only execute at a certain pace.

And so I think we're just trying to be prudent right now given the given the macro environment and say that we are not expecting a lot of volume growth in the second half of this year, we hope to be positively surprised on the back end.

Operator^ Our next question comes from Ketan Mamtora with BMO.

Ketan Mamtora^ First question, can you talk a little bit about how you are thinking about your plans to open more branches in the back half of the year in kind of an uncertain and volatile backdrop?

John Heyman^ Mike?

Michael Carlet^ Sure. So we're continuing to open stores. We're not going to stop doing that. We think it's an important part of our growth as we look out to the future, and so we're going to continue to make those investments. We would expect the second half of this year to be opening in the mid-single-digit stores.

There's always a little bit of uncertainty of contractors and real estate and get it [leased] and stores built. In fact, year-to-date, we're probably a store to behind what our optimistic plans for. We're in line with what we expected in our guidance, but I think are more aspirational, we were trying to get a couple more open.

So I think mid-single digits, which is going to be something between 4 and 7 depending upon the timing of each one. We have line of sight to them, but I couldn't tell you that we're going to open. We're not slowing that down. And remember, our investment in a single store is not all that significant.

We put $400,000 to $500,000 of CapEx into that, we'll put a little bit of additional inventory to it, and we go from there. So they're not overly grained from a working capital standpoint. They are a slight negative EBITDA impact for the first 6 to 12 months after we open them before we get to breakeven, but we think that impact is well worth the investment as we think about our long-term growth.

Ketan Mamtora^ Got it. That's helpful color. And then as a follow-up, can you also talk a little bit about just keeping liquidity cushion versus executing on your capital allocation priorities, whether it's branch opening or kind of share repurchases. As you look out M&A opportunities, so how do you kind of balance that?

Michael Carlet^ I would say when we -- I mentioned our capital allocation strategy, what I'd actually say is the very first thing in our capital allocation strategy is ensuring we have sufficient liquidity. So as we think about managing the business, we'll always make sure we're comfortable with liquidity.

We're very comfortable with the current liquidity situation of the company. Clearly, if we did any incremental M&A, as we think about investments, we're going to be making them very prudently in line with ensuring we have the right liquidity as we look out there. So we feel great about where we are.

We feel like any M&A we do, we'll plug into that liquidity model that we have. It's one of the reasons, not just because of the EBITDA guidance that would be out there, but also because of liquidity, we'll make sure we're spending and investing wisely in the organic growth opportunities that we have in line with the revenue growth expectations that we expect to get. So we're comfortable where we are, but we're always watching it very carefully.

Operator^ (Operator Instructions) Our next question comes from Keith Hughes with Truist.

Keith Hughes^ Kind of building on the last question, what would need to change for cash flow to head towards debt reduction? If the outlook darkened or would there be a trigger that would cause you to kind of reconsider that order of uses of cash flow you mentioned earlier?

Michael Carlet^ I think certainly, the outlook would have to change. I think right now, again, we're very comfortable. We always want to look out and say, if we don't do -- have any M&A, can we get debt down to the 3x leverage in the 12 to 18-month period for the cash flows of the business is sort of always our forward-looking view, and then we make

decisions off the investments off of that. Clearly, this year has been a big use of cash around inventory.

We feel like that's mostly behind us, and we can start then forming the results of the company to generate cash. As we do that, we'll evaluate what to use that cash for.

The bigger we put that cash cushion on the balance sheet, whether we use it for M&A opportunities, whether we invest organically, whether we pay down debt or all opportunities in front of us.

We'll make them in light of sort of an ongoing. We're comfortable with the liquidity and debt level of the company because we can always look out for the next 12 to 18 months and see where we would end up. But if we felt like the uncertainty rules out there more or other things cause us [to] then we certainly react quickly.

John Heyman^ Yes, I think just -- just real quick, Keith, real quick, this is John. I think what you also need to understand is Mike and I are moderating kind of the environment very carefully. We have a lot of levers at our fingertips in terms of the pace of investments we make in the business. As you know, we have operated the business at much higher margins at previous times in our history. And so we can -- we -- that is another lever for us, number one.

Number two, I'll say just because you were building up the previous question, which included M&A, we're not going to go do M&A deal that flows through our liquidity. And so if we did do an M&A deal of any kind of size, we would have to get comfortable that we could use our equity probably in this environment.

And it would have to then be a company that understands that valuations out there have changed. And the private market, of course, takes a little bit of time to catch up to the public market, but that's where we would be comfortable using our equity. So I just want you to know that we operate both from an operating but also a capital allocation process in a very disciplined way.

Keith Hughes^ Okay. And one final question. You referred to some surveys being done by buying groups and things like that. In those surveys, are you -- are the -- residentially focused integrators, I know they have a large backlog. Are they starting to see the order flow roll over? Or any kind of color on that topic would be helpful.

John Heyman^ Yes. But just because we monitor these monthly, no, not in any meaningful way. I would say they have not risen up dramatically or down in any sense over the past who -- as I'm looking at it right here over the past 7 to 8 months.

Operator^ Our next question comes from Ryan Merkel with William Blair.

Ryan Merkel^ I wanted to ask about the cost cutting you mentioned. Can you just talk about what you're doing there and possibly quantify it for us, if possible?

John Heyman^ Just real quick, Ryan, good to hear from you. We're not cutting costs. I think it's important that people understand what Mike said. We are moderating the pace of investments. So we don't have a hiring freeze. We're continuing to hire. We're just being more disciplined about the hiring we're doing in specific functions.

So that is driven by our desire to both internally and externally meet our EBITDA commitments. And so when Mike and I decide that we have to have a bit more conservative tone to the second half of the year on the top line, that means we're going to be a bit more disciplined about kind of where we're spending inside the business. Mike, do you want to add anything to that?

Michael Carlet^ That was well said, John. I don't think I have additional comments.

Ryan Merkel^ Okay. Thanks for clarifying that, John. And then the second question was on supply chain. You mentioned some easing. Can you just talk about how things have evolved over the past 3 months?

John Heyman^ Well, I think there's a few different pieces that go into the supply chain. So one is availability of componentry. The second is the cost of componentry. I think we've seen both, we've seen availability to start to free up, not everywhere, but start to free up. So that drives a much more efficient process for us than our manufacturing partners. We have seen the cost moderate.

We haven't seen it drop, but we haven't seen -- what's been driving our price increases is the increases we're seeing from our supply chain partners. So we've seen that moderate. So that's eased, which means we're confident that the price increases we have done will enhance margin that we had previously, frankly lost in the business. And so that's one piece.

The second piece I would say has been freight and freight -- inbound freight is definitely started to ease up. So I think there's a host of inefficiencies that have been in our business over the past 1.5 years and had rippled through our operations. We have teams of people, everybody from sales to our operations folks who this has created a lot of inefficiency for. And we're really looking forward to over the next 6 to 9 months getting back to kind of BAU, if you will, business as usual. But these are meaningful 7, if not 8 figure movements of dollars.

Operator^ Our next question comes from Brian Ruttenbur with Imperial Capital.

Brian Ruttenbur^ I was wondering if you could break things down a little bit regionally for us and tell us if you're seeing any pockets of growth or pockets of contraction on anything that you're seeing across the U.S.?

Michael Carlet^ Yes, Brian, reasonably, you would expect where there's small variances around the country when you think about where housing is a little bit stronger or a little

bit weaker or at times look better. But nothing that's meaningful. Clearly, in our business right now, international is a little bit of a headwind. And so we're just looking at that. But domestically, nothing meaningful on a regional basis that's worth calling out that gives us any thoughts that [relatively] need to react to.

Brian Ruttenbur^ Okay. And then as a follow-up, you mentioned harvesting cash in Q3 and Q4. Can you give us some kind of ballpark on what kind of cash generation you'll be shooting for in the second half of the year?

Michael Carlet^ Yes. We don't guide to cash, Brian, but I do think you'll see a meaningful generation of cash in the back half of the year.

John Heyman^ Real quick, I want to just add to Mike's comment because I think it's again important. If an area of housing is weaker, let's take a city like Chicago, where there's been supposedly weakness and an outflow of people.

What happens with the integrator there that may have relied more on housing being strong as they start to pivot their resources to serve commercial customers. That's naturally what our integrators do because our products can serve either sector. So I just -- that's one of the reasons we don't see a difference where somebody who is strictly tied to residential might see something more distinct in their business. Next question?

Operator^ Actually, I'm not showing any further questions. I'd like to turn the call back over to management for any closing remarks.

John Heyman^ Well, thanks again, everybody, for joining us today. It's a volatile time, but it's an exciting time to be with Snap One. I especially have to thank our incredibly dedicated team members for their ongoing contributions and our network of integration partners and all of their employees who continue to do great work, creating amazing experiences for homes and businesses everywhere and to our investors. Thank you for your support, and we look forward to speaking with you next quarter. Operator?

Operator^ Thank you for joining us today for Snap One's Fiscal Second Quarter 2022 Earnings Conference Call. You may now disconnect.