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Compass Diversified NYSE:CODI

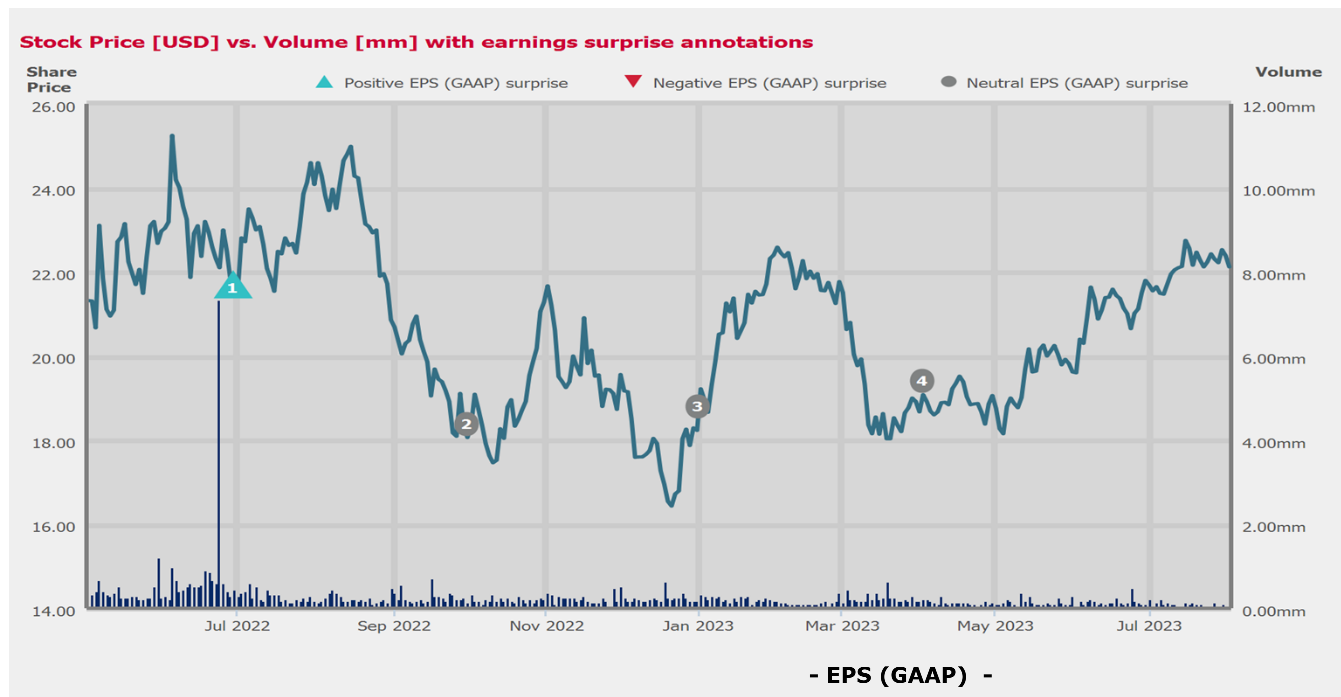
FQ2 2023 Earnings Call Transcripts

Wednesday, August 02, 2023 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-	-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.02)	0.19	1.91	1.50
Revenue (mm)	541.50	557.07	2313.12	2494.41

Currency: USD
Consensus as of Jul-17-2023 5:46 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	0.11	0.38	▲1 245.45 %
FQ3 2022	0.10	(0.21)	NM
FQ4 2022	0.06	(0.17)	NM
FQ1 2023	(0.02)	1.46	NM

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Cody Slach
Gateway Group, Inc.

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Presentation

Operator

Good afternoon, and welcome to Compass Diversified's Second Quarter 2023 Conference Call. Today's call is being recorded. [Operator Instructions]

At this time, I would like to turn the conference over to Cody Slach of Gateway Group for introductions and the reading of the safe harbor statement. Please go ahead, sir.

Cody Slach
Gateway Group, Inc.

Thank you, and welcome to Compass Diversified's Second Quarter 2023 Conference Call. Representing the company today are Elias Sabo, CODI's CEO; Ryan Faulkingham, CODI's CFO; and Pat Maciariello, COO of Compass Group Management.

Before we begin, I'd like to point out that the Q2 2023 press release, including the financial tables and non-GAAP financial measure reconciliations for adjusted EBITDA, adjusted earnings and pro forma net sales are available at the Investor Relations section on the company's website at compassdiversified.com.

The company also filed its Form 10-Q with the SEC today after the market close, which includes reconciliations of certain non-GAAP financial measures discussed on this call and is also available at the Investor Relations section of the company's website.

Please note that references to EBITDA in the following discussions refer to adjusted EBITDA as reconciled to net income or loss from continuing operations in the company's financial filings. The company does not provide a reconciliation of its full year expected 2023 adjusted earnings or adjusted EBITDA because certain significant reconciling information is not available without unreasonable efforts. Throughout this call, we will refer to Compass Diversified as CODI or the company.

Now allow me to read the following safe harbor statement. During this call, we may make certain forward-looking statements, including statements with regard to the future performance of CODI and its subsidiaries, the impact and expected timing of acquisitions and future operational plans such as ESG initiatives. Words such as believes, expects, anticipates, plans, projects, should, and future or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions.

Certain factors could cause actual results to differ on a material basis from those projected in these forward-looking statements, and some of these factors are enumerated in the risk factor discussion in the Form 10-K as filed with the SEC for the year ended December 31, 2022, as well as in other SEC filings. In particular, the domestic and global economic environment, supply chain, labor disruptions, inflation and rising interest rates all may have a significant impact on CODI and our subsidiary companies.

Except as required by law, CODI undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

At this time, I'd like to turn the call over to Elias Sabo.

Elias Joseph Sabo
Partner & CEO

Good afternoon, everyone, and thanks for joining us today. We are pleased to report that our second quarter results exceeded our expectations as we continued to benefit from a strong and diversified set of subsidiary businesses. But during the quarter, pro forma consolidated revenue and adjusted EBITDA declined by 3.4% and 5.5%, respectively, given the headwinds we saw 3 months ago, we are encouraged by these results.

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Last quarter, we detailed our strategy of assembling a highly diversified group of companies that reach a wide set of customer demographics and end markets, each with strong underlying core growth rates, and we discussed how this strategy has driven resiliency in our performance. This quarter is no different. We faced the same macro challenges, several of which are lasting longer than we originally anticipated. Nonetheless, our results continued to hold up very well.

Looking at our niche industrial businesses, unit sales remained strong, but the easing of inflationary pressures negatively impacted revenue while positively impacting margins. Our industrial businesses continued to perform above expectations, reporting high single-digit EBITDA growth for the quarter and growth of 12% year-to-date.

Notwithstanding the macro headwinds and slowing global economy, we expect our industrial businesses to continue to produce solid growth in adjusted EBITDA over the remainder of the year.

In our consumer businesses, inventory destocking headwinds have lasted longer than anticipated and continue to impact our brands further down the supply chain. Regardless, end market sales continue to hold up remarkably well. And for our brands where there is not a large inventory overhang, we are experiencing strong performance.

For example, Lugano's results indicate that the ultra affluent customer continues to spend as they delivered 56% growth in revenue in the second quarter, an acceleration from 36% growth in the first quarter. Marucci has also bucked the trend, reporting 35% revenue growth in the quarter. Marucci's end markets are not suffering from an inventory hangover, and their strong product lineup has demonstrated that the consumer is still spending for on-trend products.

Despite the aggressive Fed tightening cycle and slowing global growth, the performance of our industrial businesses, coupled with performance from Lugano and Marucci, give us confidence that our company is well positioned. And when distortions from the pandemic are behind us, we expect to deliver solid growth.

Our subsidiaries that are suffering the most from the destocking headwind, BOA and PrimaLoft are also two of our historically fastest growing, and we believe best positioned businesses. Once destocking subsides, we expect these businesses to return to their historic growth rates, and we believe we could experience above-trend growth in 2024 as part of this normalization process.

During the second quarter, we started to see some green shoots emerge giving us confidence that the destocking issues will come to an end in 2023. Specifically, bookings for PrimaLoft improved in the second quarter and grew marginally over prior year. This compares to double-digit declines experienced in the first quarter. And although one quarter does not make a trend and we expect bookings to be choppy over the course of the year, this is the first positive sign we have seen in bookings over the course of the past 12 months for PrimaLoft.

Digging deeper, we know PrimaLoft began experiencing booking weakness 3 to 4 months before our other consumer businesses, including BOA. As we look for the bottom of this inventory cycle, PrimaLoft has provided the first positive signal and leaves us optimistic that some of our other consumer businesses will soon return to positive bookings growth.

Given the persistence and inventory destocking and the lag between bookings growth and revenue growth, we expect third quarter adjusted EBITDA to be roughly similar on an absolute dollar basis to this year's second quarter. We continue to project adjusted EBITDA growth for the full year 2023 as compared to full year 2022.

In addition, we are anticipating a strong rebound in growth in the fourth quarter.

Before turning the call over to Pat, I'd like to summarize our performance and outlook. We are pleased with our second quarter results as they came in above our expectations. Despite the inventory destocking headwinds, the overall strength of our subsidiaries not only gives us confidence that we will grow adjusted EBITDA this year, but leads us to believe that our growth will accelerate in 2024.

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We believe we are well positioned to capitalize on the opportunities created once these headwinds dissipate and we remain committed to our strategy, which we expect will deliver another year of growth at CODI.

With that, I will now turn the call over to Pat.

Patrick A. Maciariello
Partner & COO

Thanks, Elias. Throughout this presentation, when we discuss pro forma results, it will be as if we own PrimaLoft from January 1, 2022. As Elias mentioned, in the quarter, we continued to face headwinds in several areas due to correcting inventory levels in the supply chain. Yet, in select spots, these headwinds appear like they're starting to ease.

Our Velocity subsidiary continued to see pressure in both of its major end markets due to a combination of reduced sell-through and tight inventory controls put in place by hunting and fishing focused retailers.

As we have discussed repeatedly, Velocity benefited greatly from demand pull forward during the pandemic as outdoor activity levels increased dramatically. As anticipated, the company is now paying the cost for this and demand has declined significantly below what we see as and what historically been trend line levels.

The impact of this [indiscernible] is having an outsized and we believe short-term impact on our consolidated financials.

Despite this significant headwind, strength in our other subsidiaries led to only modest declines in consolidated pro forma revenue and EBITDA. In fact, were we to exclude Velocity's performance, CODI as a whole showed growth in the quarter, both in terms of revenue and adjusted EBITDA.

Now on to our subsidiary results. I'll begin with our niche industrial businesses. For the year-to-date period ending June 2023, revenues declined by approximately 4% and adjusted EBITDA increased by 12.3% versus the same period a year ago. Similar to the first quarter, each of our niche industrial businesses expanded margins in the second quarter and aggregate adjusted EBITDA margins expanded by over 250 basis points versus the prior year.

Arnold showed solid growth in revenue and EBITDA and once again had strong bookings in the quarter. The company continues to gain traction, securing new projects across markets, many of which were driven by increased demand for electrification in the economy.

Margins expanded due to positive mix as sales continue to skew towards more technologically advanced products. End market demand remains solid across segments at Arnold, and we expect aerospace and defense to be a tailwind in the near term as spending in the commercial aerospace sector has not yet returned to pre-pandemic levels.

Outdoor's revenue declined slightly in the year-to-date June period as more cyclical end markets faced headwinds and the company passed on raw material savings. Although there was a slight decline in revenue, adjusted EBITDA increased by over 21% in the 6-month period as compared to the prior year due predominantly to a series of broad efficiency measures put in place by the new team. We remain encouraged by the progress made at Outdoor.

At Sterno, revenue declined by approximately 7% in the year-to-date period as compared to a year ago, driven by lumpiness in the company's scented wax business. Despite this decline, the company was able to operate efficiently and benefit from greater stability in shipping costs, driving slight growth in EBITDA on a year-to-date basis.

Turning to our consumer businesses. For the year-to-date June 2023 period, revenues increased marginally and adjusted EBITDA declined by 7.5% as compared to the prior year.

Though BOA continued to show a decline in adjusted EBITDA versus a record first half of 2022, the company again added new partner platforms in the quarter that we expect should drive growth in 2024

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and beyond. BOA selling continues to be significantly below end market demand. We believe year-over-year comparisons will improve on a percentage basis in the third quarter of this year and the 2023 adjusted EBITDA performance will track closely to full year 2021 levels.

The launch of Alpine boots incorporating our technology continues to track above our expectations, and we expect them to have a meaningful presence on the slopes in this upcoming ski season.

We are also proud of the continued widespread adoption of BOA-enabled products by cyclists. And this year's recently completed Tour De France, approximately 75% of competitors, including overall winner, Jonas Vingegaard, competed in shoes incorporating BOA fit technology.

Marucci once again had an exceptional quarter. And for the year-to-date period, revenue and adjusted EBITDA grew by approximately 20% and over 57%, respectively as compared to the year ago period -- year ago prior period.

Sales growth was strong across most channels. Our latest acquisition of composite bat maker, Baum Bat, performed well in the quarter, and we are pleased with the integration to date. The company has made significant progress in several of its adjacent categories, and we are particularly excited by strides made in the large fielding glove market as well as Marucci's growth geographically, primarily in Japan.

Lugano once again had a strong quarter. And for the year-to-date June period, revenues and adjusted EBITDA grew by 45% and 41.5%, respectively as compared to the prior year. The company saw strong growth in multiple salons, including Newport, Aspen and Houston and experienced strong sales in the second quarter in its newly opened Washington, D.C. salon.

Looking ahead, our Greenwich, Connecticut salon is scheduled to open by the end of August, and we've made progress in the quarter on construction of our second flagship salon in Palm Beach. In addition, we are pleased to announce that we recently executed a lease for a salon in London, which when opened in mid- to late 2024 will mark Lugano's first international salon. We believe Lugano's bespoke approach to ultra-high-end jewelry will have success internationally, just as it has domestically.

PrimaLoft continued to show modest declines in both revenue and adjusted EBITDA in the year-to-date period as customers continue to hold on target inventory levels. As Elias mentioned, we believe we are seeing somewhat of a bottoming in our end customers' inventory cycles and bookings have shown improvement since the end of the first quarter.

We continue to have project wins at PrimaLoft in the second quarter and continue to believe 2024 will be a strong year for the company.

5.11 had a solid second quarter. And for the year-to-date June '23 period, revenue and adjusted EBITDA grew by close to 12% and 7.1%, respectively, as revenue increased in all segments of the business. Despite continued revenue growth in the second quarter, adjusted EBITDA fell slightly as gross profit margins dip marginally as the company looked to reduce seasonal inventory in the quarter.

Velocity continued to struggle in the second quarter. While point-of-sale activity remains sluggish in the company's airgun segment, we are seeing slightly more positive signs with regards to end customers in the archery segment. The retailers have been slow to add to depleted levels of inventory.

While we believe the company will have meaningfully positive adjusted EBITDA in the second half of 2023, we continue to focus both on cost controls and demand stimulation as we continue to navigate this difficult period.

As a whole, given the headwinds, we are pleased with our performance in the second quarter as it comes in above our expectations. Though we believe that some of the broader headwinds facing our companies are starting to improve, our management teams remain vigilant in the controlling costs. We believe we will grow in 2023 and anticipate a strong 2024.

I will now turn the call over to Ryan for his comments on our financial results.

Ryan J. Faulkingham

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Executive VP, CFO & Co-Compliance Officer

Thank you, Pat. Moving to our consolidated financial results for the quarter ended June 30, 2023, I will limit my comments largely to the overall results for CODI since the individual subsidiary results are detailed in our Form 10-Q that was filed with the SEC earlier today.

On a consolidated basis, revenue for the quarter ended June 30, 2023, was $524.2 million, up 2% compared to $515.6 million for the prior year period. This year-over-year increase primarily reflects our acquisition of PrimaLoft during the third quarter of last year.

Consolidated net income for the second quarter was $17.1 million compared to net income of $31 million in the prior year. The decrease was primarily due to an increase in interest expense as a result of financing the PrimaLoft acquisition and rising interest rates.

Adjusted EBITDA in the second quarter was $90.1 million, up 3% compared to $87.4 million in the second quarter of 2022. The increase was due to the benefit of the PrimaLoft acquisition.

Adjusted earnings for the second quarter was above our expectations at $35.6 million, down from $39.3 million in the prior year quarter. The decline was primarily a result of higher interest expense.

Now on to our financial outlook. For the full year 2023, we continue to expect consolidated subsidiary adjusted EBITDA to range between $430 million and $460 million. For the full year 2023, we continue to expect adjusted earnings to range between $110 million and $135 million. This is the same guidance we had provided last conference call.

Turning to our balance sheet. As of June 30, 2023, we had approximately $67.4 million in cash, approximately $506 million available on our revolver and our leverage was 4.08x, just under 4.1.

We have substantial liquidity and as previously communicated, we have the ability to upsize our revolver capacity by an additional $250 million. With our liquidity and capital, we stand ready and able to provide our subsidiaries with the financial support they need, invest in subsidiary growth opportunities and act on compelling acquisition opportunities as they present themselves.

Turning now to cash flow provided by operations. During the second quarter of 2023, we received $21.7 million of cash flow from operations, primarily a result of strong operating performance. This is up $23.5 million from the prior year's comparable period.

We used $33.7 million in working capital during the second quarter of 2023, a substantial decrease from $63.5 million used in the prior year when we needed to support many of our businesses' inventory levels as a result of supply chain disruptions.

For the year-to-date period, cash flow provided by operations increased $72.6 million as compared to the prior year. We expect to continue to monetize working capital across the business with the exception of Lugano as we continue to fund its growth objectives.

Also of note during the quarter, the manager waived 50% of the management fee owed by the company in respect of PrimaLoft, and we used approximately $20 million to fund Marucci's add-on acquisition of Baum Bats.

Finally, turning to capital expenditures. During the second quarter of 2023, we incurred $15.5 million of capital expenditures at our existing subsidiaries compared to $14 million in the prior year period. The increase was primarily a result of the timing of retail build-outs at Lugano and 5.11 to support their continued growth.

For the full year of 2023, we continue to anticipate total capital expenditures of between $60 million and $70 million. We continue to see strong returns on invested capital at several of our growth subsidiaries and believe they will have short payback periods.

Capital expenditures in 2023 will primarily be at Lugano for new retail salons and at 5.11 as we continue to increase its retail store count from its 121 stores as of June 30.

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With that, I will now turn the call back over to Elias.

Elias Joseph Sabo
Partner & CEO

Thank you, Ryan. I would like to close by briefly providing an update on the M&A market and our strategic initiatives.

In terms of M&A, deal activity has remained suppressed below historic levels for some time now. However, we started to see some increased activity in the second quarter that we expect to gain momentum over the balance of the year.

On the ESG front, we continue to advance our key initiatives and execute our strategy. Our approach to ESG is directly tied to our business model, and ESG is becoming increasingly important to potential employees seeking new opportunities.

For these reasons, it is critical that we consistently and clearly communicate our ESG philosophy and practices both internally and externally.

To reflect the work in progress that has occurred across the organization over the past 12 months, we have updated the sustainability page on our website. We have spent significant time working with our subsidiaries to understand how our overarching ESG framework will be implemented and our companies to facilitate value creation and our web page as a source to tell this story.

We aim to generate measurable benefits that align with our values and create strong financial returns for our stakeholders. We believe that the environmental, social and governance factors that we use to build our framework over time will allow us to deploy capital in a different way than many in the marketplace reflecting risk more appropriately.

The volatility that we face today only underlines the importance of businesses like ours stepping up with purpose. We are committed to driving positive change and leading the industry to become the model of choice.

An example worth discussing comes from one of our niche industrial subsidiaries, The Sterno Group. In June of 2023, Sterno's Texarkana manufacturing facility approved -- achieved the TRU silver certification for 0 waste. TRU, which stands for total resource use and efficiency is administered by the Green Business Certification, which is a leadership standard for facilities to measure 0 waste performance.

Currently, Sterno's Texarkana facility is the only manufacturer that is TRU-certified in the state of Texas, and we are proud of Sterno's recognition and their pursuit of 0 waste.

In conclusion, we're proud of our second quarter results, which highlight the true benefits of our diversification strategy. While several of our consumer businesses continued to be impacted by persistent inventory destocking headwinds, our niche industrial businesses continued to perform well. The overall strength of our subsidiaries gives us confidence in our belief that we're well positioned to not only grow this year but have a snapback year in 2024 once these headwinds fully dissipate.

Before we open the phones for Q&A, it's with heavy hearts that we acknowledge the passing of our friend, former Board chair and mentor to so many of us at Compass, Sean Day. Over the last 25 years, Sean played an integral role in the formation of our strategy. His business acumen, professionalism, integrity and kindness will be greatly missed throughout our company. So on behalf of the entire CODI team and our Board of Directors, we express our deepest condolences to the entire Day family.
With that, operator, please open the lines for Q&A.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Larry Solow from CJS Securities.

Lawrence Scott Solow
CJS Securities, Inc.

I guess just a couple of general questions and then I'll come to specific one. Just I guess on the -- the quarter seems like it was certainly a little bit better than expected. I think it was basically flat or close to it sequentially. And EBITDA, I think you had called out kind of a mid- to high single-digit drop expected, I guess, last quarter.

Just as I parse through kind of, is the reason why you're kind of not increase the guidance basically just operations are running better, but inventory draws are a little bit heavier or going to persist a little longer really into Q3? Is that kind of a good way to sum it?

Elias Joseph Sabo
Partner & CEO

Yes, Larry, I think you're spot on. We did better in the second quarter than we had forecasted on our first quarter earnings call. But we didn't raise our guidance. And the reason behind that is, as you've identified, the inventory headwinds are a little more persistent than we thought, and they're going to bleed forward, a little bit longer.

As I said, we're starting to see some green shoots by stabilization of new orders at PrimaLoft. We haven't seen that in some of our other consumer-facing businesses. So I think as a result of that, we're just being a little bit more prudent. Although there's some positive signs in the portfolio as well.

So I would really caution or position this more as us being incredibly conservative right now because the business is performing better than we have anticipated.

Lawrence Scott Solow
CJS Securities, Inc.

No, that's a fair explanation and good color there. A question for you guys on Sterno, I guess what -- was there any -- what's the impetus for the management change, was that brought on by anything? And then I guess a second and just greater question, just on Sterno itself was I think EBITDA is running sort of in the $40 million, $45 million range. But if I remember correctly, the canned heat business itself, pre-COVID used to do close to that. I mean I know you acquired Rimports and that's probably not nearly -- not doing quite as well as it was doing probably in the hay day during COVID. I know with Walmart, a large big box customer, maybe you're losing some shelf space there.

But can you just give us -- I guess, two questions. The reason for the management change or the impetus there and what sort of -- what is Rimports? Can you kind of give us an idea of what Rimports is doing today versus the canned heat business?

Patrick A. Maciariello
Partner & COO

Okay. Larry, I mean I would just say, as is typical, people retire. Craig Carnes, who is a long-term colleague of ours at the firm decided to retire, and we believe we found a great replacement for him in Jeff, and we're excited by that.

As it relates to kind of the breakout, we don't say the breakout. I would tell you your numbers are kind of a little bit off in that. You're right conceptually but you're a little bit off.

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The canned heat business on its own or the chafing fuel business never got north of 30. It was always below 30 even at its peak -- even at the peak years. So I will let you kind of kind of read into that one, but you're also right that the -- sorry, go ahead.

Lawrence Scott Solow
CJS Securities, Inc.

No, I was saying the canned heat and someone like Sterno Home, those combined before you bought Rimports, I would say. [indiscernible]

Patrick A. Maciariello
Partner & COO

We faced some pressures, but it was never quite as high as you said. And I would say, the wax business is a -- it's a lumpy business. And it's a business that has some great quarters and some weaker periods. We bought it at a very attractive price for the company, and we continue to see it performing -- or for the shareholders, and we continue to see it performing.

Elias Joseph Sabo
Partner & CEO

Just one point -- I'll just make one other point, as you've identified with kind of a large customer of that business, if you think about where inflation has really impacted consumer spending, it's been on the kind of consumer that has the least disposable income. And these products are generally going through a channel where it's targeting that customer.

And so as inflation eases and kind of real wages start to grow, we would expect the scented kind of wax part of our business to start performing a little bit better and no longer be a drag on earnings at that company. But inflation kind of at that customer was a really significant headwind that the company was suffering from.

Lawrence Scott Solow
CJS Securities, Inc.

Fair enough. And then just to end on a more positive note, then, just on -- we get lots of questions, Elias, is on Lugano over the last few months, especially. Some question sounds around sort of it's a business lead by its founder. The more I [indiscernible]. How much can the business grow being -- how much have you built the infrastructure around them to support them. So just kind of questions there. The growth has been -- was so rapid last year and now you're up another 45% year-to-date this year. So I know you don't have a crystal ball, but I guess the questions are, what makes this business so different special from other high-end doers? And what could this business be in 5 years?

Elias Joseph Sabo
Partner & CEO

Yes. So Larry, I think it's a good question. Obviously, when you see a company that has this kind of rapid growth, the natural question is how long can it sustain this kind of growth? And is it experienced something that is making it more temporary, right? Like the pandemic had obviously positive impacts on a company like Velocity that now is getting paid back. I think that's a natural question to wonder if that's happening to Lugano.

Actually, quite to the contrary, I think the market that Lugano was going after and the approach that they have created, which is very unique and distinct in the industry is one that is generally underserved. And I know that may sound a little bit strange, but this kind of customer subset is one that hasn't been targeted at the same level by a lot of the major players in the industry. It is much more of a one-off unique kind of jewelry piece that has created versus a lot of the competitors that want something that can be much more mass and have the same piece sold throughout multiple of their outlets.

So the model is completely different. And it's something that, given the community-type aspect that our founder has built the business around with his customers, has significantly greater room to run in our

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opinion, a lot of the limitations on the growth of this business was really predicated on investment, how much capital was available to put new salons in place, how much capital was available for inventory to create these pieces.

And so when we partner with Moody to kind of drive this business forward, we were able to solve a lot of those capital issues. And what you've seen is an acceleration in the company's growth because of that. We don't view this as temporary, and we don't view the kind of growth opportunity as being limited right now. And in fact, we're seeing some of the programs that we're putting in place and some of the additional tie-ins that we have around our customer segment, it's only accelerating and strengthening kind of the community effect and the purchase of kind of product ultimately and profitability of this business.

So Moody, who is the founder that we partnered here, he's one of the most visionary CEOs that I've ever had the pleasure of working with, and he's created a unique business model that has a lot of runway for growth and its limitation will be how much capital do we want to put in to facilitate that growth.

And our view has been with return on invested capital rates as high as they are here, we'll continue to fund all of this and these opportunities until we see some sort of slowdown in growth. And we're just not experiencing that.

So I think that's a long-winded answer, I know, to a short question, but we think there's legs to this and that it can grow to multiple size of what it is today because it's such a unique mousetrap and so differentiated from everybody else in the industry.

Operator

The next question is from Matt Koranda from ROTH MKM.

Michael David Zabran
ROTH MKM Partners, LLC, Research Division

It's Mike Zabran on for Matt. Maybe just on the industrial segment. Really encouraging to see the sizable margin expansion in the industrial businesses. Last quarter, we mentioned an expectation for bookings to continue to slow and it looks like it might have. So maybe just an update on how bookings in the industrial segment have trended since last call. And then specifically on Altor, just how sustainable are these margins? Should we be pulling forward a north of 20% EBITDA margin going forward? Or should margins come in a bit as the booking environment slows?

Elias Joseph Sabo
Partner & CEO

Pat, I'll let you handle that.

Patrick A. Maciariello
Partner & COO

Sure. So first one is on bookings. I'd say, in general, the business in our industrial, as I think through industrial, those longer-lead businesses that we have that actually bookings have a large sort of spans of time between bookings and shippings, we actually saw an increase in -- or excuse me, bookings were higher than revenue. So there was a book-to-bill rate of over 1. So solid there.

I think your second question was on Altor and if we should see expanding margins. We think we'll continue to see efficiency gains there. We believe we will look to add on acquisitions that we can then also add more efficiency gains too. This management team is very good. Terry and his team have done it before, and we've been impressed by them. So we think at a minimum, this sort of margin level is sustainable, absent sort of price increases.

Remember, we pass on sort of the raw material price increases to our customers with a lag, right? So even though we'll be making the same sort of dollar contribution on a per pound basis, the margins may go down if EPS and other raw material prices increase, if that makes sense.

Michael David Zabran

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ROTH MKM Partners, LLC, Research Division

Got it. Makes a lot of sense. I guess moving to Marucci is one of the stronger businesses in the quarter, both top and bottom line relative to our expectations. So maybe just a little bit more color on what drove the outperformance? Are we still seeing strong CAT X sell-through? And then further, what type of margins are baked into the guide for the back half of the year? Should we expect something similar -- margins similar to last year in the mid-20% range?

Patrick A. Maciariello
Partner & COO

I would expect margins similar to the first half of this year. And as it relates to what drove the revenue growth, we continue to have strong sell-through on Cat X. We also continue to expand into new categories. We mentioned fielding gloves, which is a big category that we're getting a lot of traction in.

I mean if you -- and then we just have strength kind of really across segments. We've growth in Japan. We have growth in softball. If you looked at many of the hitters in the home run derby, we're using Victus bats or Marucci bats. So there's just sort of -- it's a great brand that continues to gain traction.

Michael David Zabran
ROTH MKM Partners, LLC, Research Division

Got it. Makes sense. Last one for me. Along similar lines on Marucci, maybe just touch on the Baum acquisition, quarterly performance, any trends you're seeing in DTC and just overall commentary on the integration process and plans for the future for Baum.

Patrick A. Maciariello
Partner & COO

Sure. We think we can grow Baum. They were capacity constrained. We're not -- I'm not going to touch on sort of specific financial performance. Ryan has said we borrowed, I think -- or lent Marucci to what $20 million as far as the use of proceeds for that. And I think it was us so you can get your head around sort of the -- about the purchase price.

But we're -- we will be adding capacity for Baum in 2024 likely. I don't know if that will be the biggest driver of growth for the company, but it will be another driver of growth. And our DTC, both at Marucci and at Baum remain strong.

Operator

Your next question is from Marc Feldman from William Blair.

Marc Feldman

This is Marc on for Cris Kennedy. Just wanted to ask on Velocity. I know you had mentioned it, but could you talk about any of the initiatives that are in place to turn that business back to growth on the revenue line and then also improve margins there?

Elias Joseph Sabo
Partner & CEO

Yes, Marc, I think with Velocity, you just have to -- and we should all expect and I think we've been pretty clear about this over the last couple of years. This was a company that experienced a dramatic growth in participation and revenue and earnings through the pandemic. And if you just think about it, people were staying home. This was an activity that people could go out and do. Hunting really exploded as a category.

And if it's on the archery side, these are really big CapEx or big kind of durable items that are being purchased. Some cases, it's $2,500, $3,000 per item. And for an individual to do that, they're just not -- it's not a consumable that you're going to go out and buy year in and year out.

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And so with this businesses, we experienced a dramatic uptick in the pandemic. And then, of course, there was not enough supply available. So we were rushing to get as much product as possible to our retail partners. It carried over into 2021 as having a banner year, but I think we had been very careful to say. We don't expect this to be a normalized level of earnings for this company. And this is benefiting disproportionately from anything else in our portfolio from the pandemic.

Now it was fun to experience that, and it's nice when you're getting an earnings tailwind like that. But inevitably, there's going to be a payback and we're suffering through that payback right now. So it's hard to say what can we do to stimulate demand. We're doing everything that we can do to stimulate demand.

The reality is out in the field, there's more inventory on shelves than what's needed and foot traffic coming into our retail partners is really low for this company right now. And unlike the other 9 businesses, this is the company where the end market is not growing for the products that we sell.

And so it's a payback for the really strong performance that we saw in 2021. Now do I think that it's going to get worse from here? I would say no chance. And this business will, just by virtue of some of the inventory depletion that's going on right now, have some level of better performance and revenue growth next year.

But this year, there's really not much that can be done. We have great new products that are coming out and being introduced into the marketplace. And we're trying to stimulate demand from customers. But if a customer purchased an item that they don't want to purchase another item for 3 or 4 or 5 years, you just can't stimulate that demand again. And because the rush all happen coincidentally with buyers coming in and acquiring during the pandemic, there's going to be a payback period here.

So '23 is a year where we should all have very muted expectations. It is very difficult for us to be able to generate revenue growth. But our management team is doing an extraordinary job of cutting costs and creating operating efficiencies as much as they can.

The truth is, though, in all of these businesses, there's a certain amount of operating leverage that exists. And when revenue is down and you can't stimulate it because of market background and conditions, you're just going to have negative operating leverage that's going to impact your financial results.

So I would expect Velocity to have a poor 2023 overall with a snapback coming in 2024 to some better performance. But we were pretty clear when the company was doing north of $50 million of EBITDA a couple of years ago that, that wasn't a sustainable level of earnings that it had.

But I can tell you right now, where the company has produced $2 million, $3 million of first half EBITDA, that's not sustainable either on the low side and it likely is somewhere in between that is a normalized level of demand, revenue generation, earnings potential. I do think the significance of the revenue decline has caused us to take more cost action than we otherwise would have.

And by leaning this business out, it likely is going to have a better margin profile going forward because these are the types of times where management teams really sharpen their pencils and kind of cut deeper and trim off all of the nonnecessary kind of aspects of the business because you're more in a survival mode. But that generally leads to kind of outsized earnings growth when revenue comes back.

So Look, we all wish that the market was different and that we could give you some idea and kind of this bouncing back, now the hunting season is coming. The back half of the year will categorically be better than the first half. There's no doubt about that. This is when these products are sold, when retailers are bringing them onto their shelves. So we will not replicate the first half in the second half, it will be far better, but we should have muted expectations for this year.

And it could be next year, I'm sure there will be some bounce back and it will be stronger than it is this year. But I doubt we're back on kind of trend line. There's probably a couple of years of normalization and payback for the pandemic boom that we experienced in this company. And then it will revert back to, in my sense, a more stable and normalized business.

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This industry has typically been a pretty stable, albeit very slow growth industry. It's typically been very stable. This was one where the pandemic effects were just exaggerated well beyond kind of what anyone could have anticipated.

Marc Feldman

Great. Extremely helpful there. And then I guess on PrimaLoft, I know when you guys acquired it, and since then, you've talked about some of the additional markets and additional revenue opportunities there like ThermoPlume or the licensing opportunity of increasing the consumer-facing image of PrimaLoft. Can you talk about any of those initiatives there beyond just synthetic down?

Patrick A. Maciariello
Partner & COO

Yes. No. I mean one of the large initiatives we're pushing it is our new P.U.R.E initiative, which is -- I forget exactly what [indiscernible] things were, but is produced using reduced emissions, I believe. And we are working very hard to kind of work through the supply chain to give our end customer a product that they can trust using as few emissions as possible to create that product and that is having -- that has significant interest from many of our end customers right now as an example.

Operator

[Operator Instructions] The next one is from [Derek Summers] from Jefferies.

Unknown Analyst

I was just wondering if you could share any commentary on how international performance has been at the portfolio of companies. We started to see a little bit of volatility coming out of macroeconomic data and some policy decisions there and just wanted to hear your input.

Elias Joseph Sabo
Partner & CEO

Pat?

Patrick A. Maciariello
Partner & COO

Yes, sure. I can't say there's been any huge trends. I mean, obviously, China is coming back slower than anticipated, and everybody is looking for stimulus there, right? And so we have seen that -- we have seen that in our distributor customers. We have seen that in places where we have sales to China. And we have seen that when we've had people visiting retail in Asia. We have seen that sort of at stores there.

I'd say Europe is muted and North America is pretty strong in general, by the end consumer, right? So it's kind of -- those are the three -- but no sort of sort of big sea changes right now or at least in this last quarter.

Operator

Your last question is from Matthew Howlett from B. Riley.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Just on the guidance, did I hear you right that 3Q adjusted EBITDA would be dollar amount equal to the second quarter?

Elias Joseph Sabo
Partner & CEO

Yes, roughly in line with the dollar amount we just posted.

Matthew Philip Howlett

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B. Riley Securities, Inc., Research Division

So I look at it basically with the midpoint of your $430 million to $460 million, excluding the corporate G&A, you're talking about 111 third quarter than something like 115, 116 in fourth quarter. Is that how we sort of should think about the gross EBITDA?

Elias Joseph Sabo
Partner & CEO

Pat?

Patrick A. Maciariello
Partner & COO

I think that's a good way to think about it.

Elias Joseph Sabo
Partner & CEO

Yes.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Okay. Great. And then last thing, I was intrigued by that you had the comments in there about '24. I know you don't provide guidance for '24, so I'm not trying to ask you, but you sort of touched on how it could be really snapped back. I think historically, you said 10% growth for your portfolio of companies, could we possibly be thinking about something much better than that in '24 in a snapback scenario?

Elias Joseph Sabo
Partner & CEO

Yes. I think what we're trying to highlight is the kind of -- if you just think about what's happening right now and Pat alluded to this, and we keep talking about inventory destocking. But end market sales for virtually all of our companies that are in the consumer space and are going through the wholesale channel are being muted or the end market sales are stronger than what our selling. And so our revenues are being muted.

Probably the notable exception to that, Matt, is if you look at Marucci, obviously, where inventories didn't overhang as much and they had a better opportunity to be able to match kind of sell in to sell through. And so if there's a company that its sell-through is $20 million or $30 million greater than sell-in just by no longer having inventory destocking, you could have a pretty material impact on revenue growth without even having revenue growth come from the kind of initiative that we have in place.

And so if you think about a company like BOA, just take it as an example, we know there is a huge differential between the amount of sell-through and the amount of sell in.

Now on top of that, BOA has done an extraordinary job of continued -- continuing to proliferate on the number of new platforms. And so we know that we have a ton of new platforms in the market compared to where we were in, let's say, 2021, and so -- and we know the products that we're on are the on-trend products that are growing above the industry growth rate.

So that should lead to really strong growth absent any differential between sell-in and sell-through. And so we look at it and we say, okay, that's a business that if it just no longer had inventory destocking would have a substantial amount of revenue growth. And then you couple on top of that the fact that it is continuing to take rapid market share gains through proliferating on more platforms that should be a really accelerated growth that the company, the experience is getting back to the normalization product. And so I give that as an example because there's no reason to think that PrimaLoft won't experience that or Ergobaby or 5.11 in its consumer wholesale segment.

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And so when you think about that amount of inventory headwind we think of it as a rubber band that's getting kind of pulled farther and farther back as inventories are being depleted here. And when it snaps back, I think that it would be reasonable to expect, and I'm not trying to give '24 guidance right now. We'll do that as we come into the new year. But it would be reasonable to expect that '24 could be a growth year that is higher than what our long-term core growth should be.

That -- in months, there's some continued inventory shrinkage, which doesn't really seem plausible from where we're sitting right now, I think that would be a good baseline expectation. And so we think we could have a really strong step back in Q4 based on -- we obviously have a lot more information and a lot more granularity on what each of our companies are doing to take market share.

And I can tell you, we've never felt better about our companies and what they are doing to increase their shelf space and their share, but yet it's not coming through in end market numbers. Because of destocking, that should provide a real acceleration into next year. And personally, if I was a betting man, I'd probably take the odds that we will grow faster than our long-term core growth rate next year as a result.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

The way you explained it makes it very clear now the headwinds that the destocking is causing that normalization is going to give you just a [indiscernible] as it goes back towards normal growth rate.

So that makes a lot of sense. And then I'll just ask a question, I usually get -- I don't think anyone asked on the health care. I know you gave the update on M&A. Just anything new on that front? Kurt, continue to look at deals, just an update there.

Elias Joseph Sabo
Partner & CEO

Kurt is active, and I think we are -- in terms of we're in a really weird market backdrop, I mean this has been one of the slowest M&A markets that I've seen in 25 years of being involved in middle market M&A. And I'd say it kind of is matching or even probably longer duration than the pandemic and the financial crisis in terms of how long is lasting in terms of kind of muted M&A activity.

So against that backdrop, it's really hard in any industry to think there's going to be a lot of activity happening. Sellers are just hesitant for price discovery. So I think Kurt is doing an outstanding job. We look at the funnel of potential opportunities that fit within sort of the core critical outsourced services space that have kind of the right economic moat around the businesses, that have the right size, but there's no catalyst to bring those to market.

All we can do is track those, know those are out there, know they will be coming and get in position to be able to execute when one or multiple of those businesses come out.

And I can tell you, the list is very robust. So we can only control what is within the span of our control and that is to be tracking and understanding the companies that we'd like to execute against. And as those companies and those sellers start to feel more confident, then I think we're going to have a really robust opportunity to put money to work in that space.

If anything, I'm probably more encouraged by the breadth and number of opportunities that we currently have on our target list. And it leads me to believe that this absolutely is the right vertical. We should be in this space. And I think there are some initial green shoots there that are emerging. I mean, look, we saw the IPO market open up not with respect to health care, but just in general, we saw a restaurant group that got out there in the consumer space and did really well.

Some of these initial signs of, okay, the IPO markets are opening, financing is starting to come back to the market, that gives people more confidence to say, you know what, the M&A markets are coming back. I postponed and waited for a year or in this case, maybe 1.5 years, it now time to come back into the marketplace.

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And so we're getting increasingly more bullish that in the back half of this year and into '24, there's going to be a material uptick in M&A activity. And I think we're positioned really well. And in particular, in health care, we're positioned really well to be an active buyer in the space.

Operator

There are no further questions at this time. I would now like to turn the conference back to Mr. Elias, sir?

Elias Joseph Sabo
Partner & CEO

Thank you, operator. As always, I'd like to thank everyone again for joining us on today's call and for your continued interest in CODI. Thank you for your continued support.

Operator
Thank you. This concludes Compass Diversified conference call. Thank you, and have a great day.

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