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Masco Corp. (MAS)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning ladies and gentlemen. Welcome to Masco Corporation's First Quarter 2024 Conference Call. My name is Ludie and I will be your operator for today's call. As a reminder, today's conference call is being recorded for replay purposes. [Operator Instructions]

I will now turn the call over to Robin Zondervan. You may begin.

Robin L. Zondervan

Vice President, Chief Accounting Officer and Investor Relations/FP&A, Masco Corp.

Thank you, operator, and good morning everyone. Welcome to Masco Corporation's 2024 first quarter conference call. With me today are Keith Allman, President and CEO of Masco; and Rick Westenberg, Masco's Vice President and Chief Financial Officer.

Our first quarter earnings release and the presentation slides are available on our website under Investor Relations. Following our remarks, we will open the call for analyst questions. Please limit yourself to one question with one follow-up. If we can't take your question now, please call me directly at 313-792-5500.

Our statements today will include our views about our future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements.

We've described these risks and uncertainties in our risk factors and other disclosures in our Form 10-K and our Form 10-Q that we filed with the Securities and Exchange Commission.

Our statements will also include non-GAAP financial metrics. Our references to operating profit and earnings per share will be as adjusted unless otherwise noted. We reconcile these adjusted metrics to GAAP in our earnings release and presentation slides, which are available on our website under Investor Relations.

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

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Thank you, Robin. Good morning everyone, and thank you for joining us today.

Please turn to slide 5. I'm very pleased with our strong start to the year as we reported another quarter of operating profit margin expansion and EPS growth compared to the prior year.

Our results were driven by improved operational efficiencies, solid execution, and the strength of our repair and remodel product portfolio. We remain focused on growing our market share by engaging with our customers, launching innovative new products, and building on the value of our brands.

Turning to our overall company performance. Our top line decreased 3% in the quarter, which was in line with our expectations. Volume was down 4%, partially offset by pricing actions of 1% and the impact of our recent acquisition of Sauna360, which we finalized in the third quarter of the prior year.

Operating profit improved in the quarter by \$10 million to \$322 million, and operating margin grew 90 basis points to 16.7%. The improvement in our operational performance was primarily driven by cost savings initiatives and a favorable price/cost relationship, partially offset by lower volume. Our earnings per share grew 8% to \$0.93 per share.

Turning to our segments. Plumbing sales declined 2% overall and 4% excluding acquisitions. In local currency, North American Plumbing sales decreased 1%, including the favorable impact of acquisitions. In International Plumbing, sales decreased 5%. Operating profit for the segment was up \$26 million to \$228 million, and operating margin was up 260 basis points to 19.1%.

In addition to our focus on operational excellence and continuous improvement, both our North American and International Plumbing businesses remain focused on developing new and innovative products that serve the needs of our customers.

In North American Plumbing, for example, Delta Faucet showcased several new and award-winning products at the Kitchen and Bath Industry Show held in February, including a multilevel offering of steam showers, headlined by the Brizo Mystix steam shower system, a tankless reverse osmosis water filtration system and several [ph] cross (00:05:12) expansions in brick-and-mortar retail and in the bathing category online, all of which are launching later this year.

In our spa business, Watkins Wellness launched FreshWater IQ, a smart monitoring system that automatically tests the water in your spa and communicates recommendations when adjustments are needed to maintain clean natural feeling water. This breakthrough technology provides our customers with a superior ownership experience and continues the legacy of innovation that makes Watkins Wellness, an industry leader in the spa market.

In our International Plumbing business, Hansgrohe AXOR brand recently presented a variety of new products at the Milan Furniture Fair, including the Citterio C bathroom collection, customization options with AXOR signature service and the AXOR ShowerSelect ID temperature control technology. These products continue to demonstrate Hansgrohe's innovative bathroom solutions, which offer premium design, while simultaneously saving energy and water. With our strong brands, global presence and innovative products, our Plumbing segment is well positioned to continue to gain global market share.

Turning next to our Decorative Architectural segment. Sales declined 3%. PRO paint and DIY paint sales were both relatively flat year-over-year. Operating profit for the segment declined by \$8 million to \$125 million, and operating margin declined 60 basis points to 17%. In our paint business, we remain focused on working closely with our partner, The Home Depot to drive further share gains with both PRO and DIY paint customers.

During the quarter, Behr continued to invest in services focused on meeting the needs of the PRO painter. This included expanding the PRO sales force into additional markets across the United States, increasing job site delivery availability and providing exceptional brand loyalty programs.

Additionally, in a recent third-party quality study, Behr was rated number one in interior paint, number one in exterior paint and number one in exterior stain, demonstrating the strength and exceptional quality of our leading Behr brand.

Moving to capital allocation. Our strategy remains unchanged. During the quarter, we returned \$212 million to shareholders through the repurchase of 2.1 million shares for \$148 million and a dividend payment of \$64 million.

Now, turning to our outlook for the remainder of 2024. With the year beginning largely as expected, we continue to anticipate that 2024 adjusted earnings per share will be in the range of \$4 to \$4.25 per share. While we expect a relatively flat top line for the year, our focus on cost savings initiatives, disciplined pricing, and operational efficiencies will help us continue to drive operating margin improvement and earnings per share growth in 2024.

For the remainder of the year, we remain cautiously optimistic as we continue to monitor inflation data, the likelihood of current year interest rate cuts and changes in consumer confidence levels. However, we continue to believe the fundamentals of our repair and remodel markets are strong and that structural factors, such as the age of housing stock, consumers staying in their homes longer and higher home equity levels will drive increased repair and remodel activity over the mid- to long-term.

We believe these favorable fundamentals, our portfolio of low-ticket repair and remodel products, our focus on operational excellence, and our disciplined capital allocation strategy will continue to drive shareholder value creation.

Now, I will turn the call over to Rick to go through our first quarter results and the 2024 outlook in more detail. Rick?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

Thank you, Keith, and good morning, everyone. Thank you for joining. As Robin mentioned, my comments today will focus on adjusted performance, excluding the impact of rationalization charges and other one-time items.

Turning to slide 7. Sales in the quarter decreased 3% year-over-year, or decreased 4%, excluding the favorable impact of our Sauna360 acquisition in the third quarter of last year. FX had a minimal impact on our first quarter results.

In local currency, North American sales decreased 2%, or 3% excluding acquisitions. In local currency, international sales decreased 5%. Despite lower sales, our continued efforts to drive operational efficiencies as well as our price/cost performance in the quarter, helped lead to gross margin expansion of 210 basis points to 35.7%.

SG&A as a percent of sales was 19.1% and was impacted by higher employee-related costs including incentive compensation. Overall, our operating profit grew 3% in the quarter, and margin expanded 90 basis points to 16.7%. This strong operating profit and margin performance was due primarily to cost savings initiatives and a favorable price/cost relationship, partially offset by lower volumes. We also grew EPS during the quarter by 8% to \$0.93 per share.

Turning to slide 8. Plumbing sales decreased 2% in the quarter, in line with our expectations. Lower volume and mix reduced sales by 7%. This was partially offset by favorable pricing of 3% and the positive impact of acquisitions of 2%. North American Plumbing sales decreased 1%, however, decreased 4% excluding acquisitions.

Delta Faucet had another solid quarter, achieving low single-digit revenue growth, driven by continued strength in the wholesale channel. In local currency, International Plumbing sales decreased 5%, driven by soft demand in our key markets of Europe and China.

Segment operating profit in the first quarter was up \$26 million, or 13% year-over-year and operating margin expanded 260 basis points to 19.1%. This operating profit improvement was driven by cost savings initiatives and a favorable price/cost relationship, partially offset by lower volume and mix.

Turning to slide 9. Decorative Architectural sales decreased 3% for the first quarter. Paint sales were relatively flat year-over-year with sales in both DIY and PRO paint in line with last year. This performance was consistent with our expectations, and we continue to anticipate our full year DIY paint business to decrease low single-digits and our PRO paint business to increase low single-digits.

Operating profit was \$125 million and operating margin was 17%, down 60 basis points year-over-year, primarily due to lower pricing, partially offset by cost savings initiatives.

Turning to slide 10. Our balance sheet remains strong with gross debt-to-EBITDA at two times at quarter end. We ended the quarter with \$1.3 billion of liquidity, including cash and availability under our revolving credit facility.

Working capital as a percentage of sales declined 50 basis points to 18.6% as we continue to stay disciplined on our working capital levels. During the first quarter, we repurchased 2.1 million shares for \$148 million and paid a dividend of \$64 million to shareholders. As we discussed on our February earnings call, we continue to anticipate deploying approximately \$600 million during the year towards share repurchases or acquisitions.

Now, let's turn to slide 11 and review our outlook for 2024. The year has started largely as expected and as a result, we are maintaining our full year outlook, which is as follows.

For Masco overall, we expect 2024 sales to be roughly flat with operating margin growing to approximately 17%. Currency is projected to have minimal impact on our results.

We expect sales to be down slightly in the first half of the year with modest growth in the back half of the year. Additionally, we expect operating margin to be roughly flat in the first half of the year, with expansion expected in the second half.

In our Plumbing segment, we expect 2024 full year sales to be plus or minus low single-digits versus 2023 and our operating margin to expand to approximately 18.5%, up from our prior year margin of 18%. Margin expansion will be primarily driven by pricing discipline, operational efficiency and continued cost savings initiatives.

In our Decorative Architectural segment, we expect 2024 sales to also be plus or minus low single-digit versus 2023 and operating margin to be approximately 18%, up from our prior year margin of 17.8%, driven by cost savings initiatives.

Finally, as Keith mentioned earlier, we are maintaining our 2024 EPS estimate of \$4 to \$4.25 per share. This assumes a 221 million average diluted share count for the year and a 24.5% effective tax rate. Additional financial assumptions for 2024 can be found on slide 14 of our earnings deck.

With that, I'd like to open up the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Anthony Pettinari from Citi. Your line is open.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Good morning. DIY paint accelerated pretty meaningfully from 4Q to 1Q. And I'm just wondering if you could talk a little bit about whether that acceleration was related more towards improving demand or maybe the timing of comps? And how should we think about maybe pathway to restoring price/cost and DA given volumes are improving?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

I'm not quite tracking with you, Anthony, in terms of volumes improving. Tell me what you mean by that?

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

I guess, the move from DIY paint from 4Q to 1Q, if you could just talk about the trends you're seeing there.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Well, I'd tell you that when we look at the rate of volume decline that we're seeing across our business and specifically in DIY paint, we continue to see that the market is down a little bit. We haven't really seen a restoration of volumes. I don't know if you're implying sequentially or if you're looking at year-over-year.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Yes, year-over-year.

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

Anthony, the only thing I would add is, there's nothing really noteworthy in terms of trends. I think it's more seasonality. But in terms of our DIY performance as well as our PRO volume or sales performance, it was roughly flat year-over-year on a Q1-to-Q1 basis. And as we indicated in terms of the calendar year outlook, which is probably more meaningful on a calendar year basis, we do expect DIY to be down low single-digits, but PRO to be up low single-digits. So that provides some context in terms of what we're expecting this year.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Okay. That's very helpful. And then I'm just – Plumbing [ph] ball (00:18:57) mix, I think, decelerated from down 4% in 4Q to down 7% in 1Q despite what looked like an easier comp. I'm just wondering if you could talk about if you view that as a deceleration, if there is anything in the weaker channels that you'd flag and maybe just more

broadly about trends that you're seeing in Kitchen and Bath remodel that you'd identify as maybe tracking better or worse than expected for Masco?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Yeah, I think in terms of what we're seeing on a sequential basis, on a year-over-year but sequential basis, as you articulated, I think that's driven largely by the geographic performance. So, it wasn't really until Q2 of last year where we saw more of a slowdown in our international market. And so, as we look on a year-over-year basis, our North America Plumbing was down 1% or 2%. But our International Plumbing was down about 5% on a currency-adjusted basis. So, I think that's perhaps explaining the dynamics that you're seeing. I guess, I'll let maybe Keith comment in terms of the trends as we see going forward in terms of the Plumbing business in Kitchen and Bath?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. When we look at our rate of decline in Plumbing, it really shows a moderation in terms of what I would call stabilization, probably a better word, particularly in North America. The slowdown last year happened, as Rick said, a couple of quarters later in our International business. So in North America, our trade business is doing quite well and overall North America is stable. We feel it's safe to say that we've hit the bottom in North America, a little bit different story internationally.

More stability in Germany, certainly, but there's still some variability in China. So it's maybe a little bit too early to call to say that we've seeing that hit bottom in North America. So we're expecting our international sales to be down a little bit more in terms of the total market this year than we would in North America.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. I'll turn it over.

Operator: Thank you. Your next question comes from the line of John Lovallo from UBS. Your line is open.

John Lovallo

Analyst, UBS Securities LLC

Q

Good morning, guys. Thank you for taking my questions here as well. Maybe starting at a high level, and just talking or thinking about your outlook for repair and remodel sort of flat to down low single-digits. We've had a move in rates here and perhaps a little bit more pressure on existing home sales. Just curious if you're kind of leaning more towards upside or downside there, if anything has changed in your overall thought process?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Good morning, John. Really no change. I mean, we've performed this quarter as expected. We're holding our guidance and believe that we will start to see an uptick in the second half in the overall market. But no real change as we see it in terms of how the consumer is behaving. Certainly, there's volatility left and that we're calling for flat, plus or minus low single-digits. And our market is driven primarily by consumer confidence. So we're watching carefully where the rates go, what happens geopolitically. There's a lot of dynamics here, but fundamentally, how we view the market has not changed. And by and large, first quarter came in right where we expected it to come in.

John Lovallo

Analyst, UBS Securities LLC

Q

Okay. Yeah, that's encouraging. And then considering that DIY and PRO paint were both sort of flattish on a sales basis year-over-year. That would seem to imply that KICHLER and the hardware business were down maybe closer to 15%. I mean, are we thinking about that right? And if so, what's sort of driving that? And then how are you thinking about these businesses as we move through the year?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Yeah. No, I follow your math, John. It wasn't quite that significant, but KICHLER and LIBERTY were down a bit more than our overall portfolio. And some of that's driven based off of decisions that are made. For example, KICHLER has done a really nice job at taking some restructuring actions with regards to cost and price, but also portfolio exiting some lines of business that weren't as profitable. So that's driving a little bit of the year-over-year comp. And as we look for the rest of the year, I think what we will expect to see in terms of those business lines is more in line with the R&R industry as we kind of lap some of the comps.

John Lovallo

Analyst, UBS Securities LLC

Q

Great. Thank you, guys.

Operator: Your next question comes from the line of Matthew Bouley from Barclays. Your line is open.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Good morning, everyone. Thank you for taking the questions. A couple of questions on the margins. I think you again spoke to total company operating margins being sort of flat year-over-year in the first half. Obviously, Q1 was up year-over-year. So, I guess, my question is for the second quarter, does that imply margins really need to be down as we enter the second quarter here kind of finer point on how should we think about that margin here in the second quarter? Thank you.

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Yes. No, Matt, I appreciate the question. And we are pleased with our performance. It was a strong performance in Q1. And as you indicated, we've reiterated our guidance for the year as well as our first half and second half performance.

I think it's important to note that we do still expect to see overall margin expansion in each of our segments and for Masco overall for the calendar year. But when you look at a quarterly performance in this particular case, Q2 is really a comparison to a strong comp last year. So 2023 Q2, we had very strong margin performance for Masco overall, I think we had 19% margins. So it's really a strong year-over-year comp that we're looking at. So yes, it's fair to say that we do expect some margin reduction year-over-year in Q2. But we're expecting flattish margin in the first half of the year and margin expansion overall. But we still expect to see a solid Q2 and sequential increase in margins from Q1 to Q2 as well.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. Thank you for that Rick. And second one, just zooming into the Plumbing margin specifically, 19.1% margin in the first quarter. You kept the full year guide unchanged. I guess it would be helpful if you can kind of outline how price/cost is playing into that. You had the benefit in Q1 and maybe we're seeing copper prices increase here. So just how is price/cost playing into that? And was there anything else kind of beneficial in Q1 that's sort of not continuing for the year? So yeah, just kind of what the reasoning behind holding that guide unchanged? Thank you.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Not a real big impact in price/cost in Plumbing in the quarter. Again, as Rick said, we're pleased with the margin performance. The team has done a real phenomenal job of lining up a pipeline of productivity initiatives, and this is something that's been going on for several quarters now and part of the reason why we have the confidence of the overall margin increase year-over-year.

So, it's really not a question of what's not going to continue moving forward. We're holding our guide. The business performed well, not a whole lot of impact either way from the price/cost relationship. It's just good solid execution, and we expect that to continue.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Great. Thanks, Keith. Thanks, Rick. Good luck, guys.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Thanks Matt.

Operator: Your next question comes from the line of Mike Dahl from RBC Capital Markets. Your line is open.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my questions. Keith, just to follow-up on that. It does seem like the progression in Plumbing is – it's driven by some sustainable things that you expect to continue. You have articulated a medium-term guide. That is higher than this 18.5%, and it's basically you're approaching that with your 1Q. So when we look forward, are there specific things that you can point to for the balance of the year that would end up coming in and being incremental headwinds to the Plumbing business, whether it's mix or other things like that that would bring the margin down from what you're experiencing here?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Well, I think Mike demonstrated an ability to manage commodity changes. Who knows where they will go. We're seeing a little bit of variability. We're watching crude oil. There's some freight components in terms of incremental costs as we ship around the Red Sea. There's a pending labor negotiations in the East Coast. So those are the types of things that we watch, and we're uncertain where those may go and if they will result in headwinds. But I think we've demonstrated the ability to manage those with our pipeline of productivity initiatives and cost out as well as the strength of our brands and innovation and ability to get price where we need to.

I think in terms of what's out there that could materially drive margin and what we're really looking at is the overall volume. Our plan is to convert volume at that 30% to 35% range in Plumbing. So that could be an upside if volume goes in the positive direction. And then we're going to have to manage very tightly on the decrementsals should it go the other way. But really don't have in mind any significant negative headwinds in our Plumbing business that we're anticipating going forward. We're just ready to manage in the volatility. I think that's the key.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Yeah. That makes sense. Okay. And then just shifting gears to the overall kind of capital allocation environment. We've seen a decent number of building products businesses, trade hands or announce transactions, a variety of kind of scale there in terms of small to large. Can you just update us on what you're seeing out there, how you're thinking about the environment and how it's unfolding year-to-date?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Sure. I think the most important view that we have is that our capital allocation strategy has not changed. I think we're anticipating in the range of \$600 million this year of availability for acquisition – from cash flow available for acquisitions or buyback. And we see those as fungible, and we're not going to hoard cash, and we're going to manage that very consistently with how we have in the past, and that's resulted in good shareholder value creation.

So, no change in our strategy in terms of acquisitions, focused on bolt-ons and our Paint and Plumbing business. We think that's the right place to be given the relative pricing of deals that we're seeing out there. I would say that the deal flow is up a little bit, but not necessarily materially. We continue to drive cultivation work and are looking at several options, but no change in our capital allocation strategy.

With regards to some specific announcements that are out there, particularly in our paint business. Assets of that size, it's somewhat rare that they come up and it's safe to conclude that we're looking at that opportunity. And we'll see if there is a form of – or any variety of a deal that could add value to us. So, too early to talk about it. We're not going to get into detail here. But the things that we are looking at are consistent with our capital allocation strategy. It's a strategy that has worked for a period of years for us to generate shareholder value. And we're going to continue to drive that strategy.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Appreciate that. Thanks, Keith.

Operator: Your next question comes from the line of Susan Maklari from Goldman Sachs. Your line is open.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning. Going back to some of the company-specific initiatives that you've got coming through, it seems like you're really starting to gain some momentum with them even with the backdrop still being fairly tepid in there. Given the progress that you're seeing, is there any change in the timeline or perhaps the sort of progress or the things that we should be thinking about that could come through over the course of this year and next year?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Hey, good morning, Sue. No, not really. We're pleased with the first quarter performance, as I said in my prepared remarks. But it's on plan. That's what we anticipated. We're one quarter into the year. We're one quarter in marching towards our 2026 margin guidance. So, we're not really – no change at this point. Things are going well. We're executing well. We realize that we're in a volatile environment and that flexibility and reactivity is important, and we're continuing to drive that with our leadership team.

So, I would say good start to the year, good start marching towards our 2026 targets. No change, and we're continuing to focus our leadership teams and making sure that we're very mindful of our growth spend and our SG&A spend to make sure that we're getting the productivity from those.

We're driving our pipeline of efficiency improvements through our standardized operating systems that we've had for over a decade now. And things are moving along nicely. We're pleased, but no change in our 2026 outlook or how we feel about the year. We think we're going to have a year as planned and as we're guiding.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Okay. That sounds great. And then, you also had some really nice improvements on the working capital side. Does that go to some of these efforts that are coming in? And can you just talk about what drove that? And any thoughts on how that could trend over the next couple of quarters?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Hi Sue, it's Rick. Yeah. From a working capital perspective, we continue to be disciplined on working capital. It's probably well documented. We had a bit elevated of working capital in 2022. We brought that back in line in 2023. And our expectation is that we'll continue to keep working capital at a normalized or in-line basis as we work through the course of the year.

So, there will be seasonality. It's higher in Q1, just from a seasonality perspective as we and our channel partners prepare for the seasonally stronger Q2 and Q3 selling season. But in terms of working capital, follow more of a traditional seasonality trend. And as we look towards the end of the year, we're projecting that we would end working capital as a percent of sales around 16.5%, which is relatively in line with where we finished 2023.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay, all right. Thanks for the color and good luck.

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Thank you, Sue.

Operator: Your next question comes from the line of Adam Baumgarten from Zelman. Your line is open.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Hey, good morning everyone. Just in Plumbing, how should we think about the magnitude of the price/cost tailwinds on a go-forward basis? Do you think that 1Q was maybe the peak for that relationship? Or do you expect tailwinds throughout the balance of the year?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Hey, Adam, what I would say is, again, we're pleased with Q1 performance. As it pertains to the rest of the year, I would say, for Plumbing price, we're expecting a low single-digit tailwind or favorability for the year overall and commodities to be relatively neutral. As Keith mentioned, there's some obviously, as we all recognize, variability in the commodity markets and in the freight market. So, that's a little bit TBD as the year plays out. But at least from a price perspective, low single-digit favorability.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Okay, got it. And then just on the mix side in Plumbing, did you see any headwinds in the quarter? And if so, was that really due to International? Or are you seeing some trade down? Maybe just some more color on the mix side of it?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Yeah, it was pretty minimal during the quarter. It was a slight headwind in our International business, just really, as Keith mentioned before, China is still pretty volatile and that tends to be a more profitable market. So if that is down, which it was, it's geographic mix, but it wasn't very meaningful for the overall business.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Okay, great. Thanks.

Operator: Your next question comes from the line of Philip Ng from Jefferies. Your line is open.

Philip Ng

Analyst, Jefferies LLC

Q

Hey guys. Keith, appreciate your comments about the consumer and how the year is shaping up largely in line with what you thought coming into the year. But I was just curious, have you seen any noticeable trends inter-quarter and going into April? Have your channel partners changed any behavior in terms of how they're managing the inventory? I'm just curious if there's any inter-quarter improvements or it's been kind of bouncing along the bottom at this point?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

It's really as we expected. Don't comment so much inter-quarter as there's obviously a lot of variability with regards to current year in-quarter or prior year in-quarter, system [ph] fill (00:37:07) for new product launches and all those sorts of things. But I would say it's as expected and really no comment beyond that in terms of what's happening inside the quarter.

Philip Ng

Analyst, Jefferies LLC

Q

Okay. That's helpful. And then as you kind of alluded earlier, one of the larger paint assets are put on strategic review. It's something by definition, you have to take a harder look at what – your partner on the retail side, obviously, on paint has made a huge investment in reaching the complex PRO. So, is this something you're putting a hard consideration in and particularly on the store side, which is a little different from what you guys have done operationally on the business side. Would you look at it holistically or in parts, just any more color in terms of how you're thinking about it?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Sure. Yeah, that was certainly a significant acquisition for Home Depot. And I think that really illustrates their focus, which we've been keenly working with them on the paint side with regards to the PRO. But they continue to be focused on the PRO. And that's consistent with our strategy, and we continue to work very closely with them particularly in our paint business to go after that PRO.

And when you look at our stacked comp over the last several years of some 60% in PRO paint, that's indicative of not only the capability of our Behr brand and our service proposition, et cetera, but absolutely of our relationships and their focus on that PRO. So that's key.

With regards to the paint asset that we're looking at, that could take any form. It's too early for us to get in now, the process has just started, but we're going to look at all aspects of it. And we will be consistent with our capital allocation and our M&A strategy. And that may or may not involve various parts of the assets that are under review. And we're taking a look at it. It's too early to get into any of the specifics around the individual components of a potential deal that may or may not happen.

Philip Ng

Analyst, Jefferies LLC

Q

Okay. That's great color. Really appreciate Keith.

Operator: And your next question comes from the line of Garik Shmois from Loop Capital. Your line is open.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Hi thanks. Just wondering how you're thinking about International Plumbing as the year progresses, maybe you have some easier comparisons throughout the years. Wondering if you're expecting that part of the business to show growth over the next several quarters?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Well, in terms of the overall International market, as I said, Garik, it's lagging a little bit in terms of finding the trough, if you will, versus North America. So, we're expecting the International market to be down low- to mid-single-digits.

Hansgrohe and that team there has done a phenomenal job and there's no question, while it's certainly difficult to pin down in a particular quarter the size of the market when you're in well over 100 countries. But clearly, we're outperforming our major competition in Europe and continuing to gain share.

So, we expect that to continue to happen. The business is performing very well. There is a little bit more signs of stability in Germany and Central Europe than we're seeing in China. So, we think China is lagging a little bit. But we expect to continue to gain market share against the backdrop of International markets that will be down low- to mid-single-digits.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Okay, that's helpful. And then just with respect to commodity volatility. Just wondering how you're thinking about pricing over the remainder of the year you're thinking about or have announced additional price increases to offset.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah, we've had some price that we took last year and then I would say kind of targeted pricing this year in Plumbing, I'm talking specifically. It's been a mixed bag as it relates to commodities in Plumbing. Container costs have decreased slightly, but are certainly elevated ongoing risk, as I talked about, in the East Coast port negotiations, the Red Sea, a number of other areas as it relates to freight.

At quarter end, I think copper was up about 3% from where it ended last year and is currently above \$4 again. Zinc prices are starting to come up. So, there's volatility there.

I would remind you that in Plumbing due to the nature of products coming across the ocean and the time it takes there and then going through our inventory. It takes about six months for a impact to be seen in our P&L. So, for Plumbing, we expect, let's call it roughly flat commodities in 2024 all in. Operator?

Operator: Your next question comes from the line of Keith Hughes from Truist. Your line is open.

Keith Hughes

Analyst, Truist Securities, Inc.

Q

Thank you. Similar question to the last one, but in the Paint business, what's the outlook for inputs the next couple quarters there?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Yes. Hi, good morning Keith, it's Rick. So, with regards to on the Paint side of the equation from a commodity standpoint, we saw some favorability in Q1 year-over-year, it was pretty modest, but really sequentially flat. And really for the calendar year, we don't see a significant impact as of today with regards to commodities on a year-over-year basis in the Coatings business. As I think was mentioned, we've seen some increase in oil prices, which obviously impacts resin. There's some pressure in the TiO2. So, good start to the year, but really stability and some potential upward pressures, but we're monitoring it very closely.

Keith Hughes

Analyst, Truist Securities, Inc.

Any upward pressure may be later out in the year? It sounds like that's a little more of a [ph] speculatively (00:43:47).

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

Yeah, there's a delay, obviously, as Keith alluded to, because it's not an immediate impact. And so we're – again, we're monitoring it, but it's not something that we currently, in terms of our expectations for the year, we're not baking in any significant benefit or headwind with regards to commodities for the year.

Keith Hughes

Analyst, Truist Securities, Inc.

Okay. Thank you.

Operator: Your next question comes from the line of Sam Reid from Wells Fargo. Your line is open.

Sam Reid

Analyst, Wells Fargo Securities LLC

Awesome. Thanks so much guys for taking my question. Actually I wanted to drill down a little bit more to start with on Plumbing, specifically Plumbing pricing. Can you talk maybe pricing strategy by channel and any differentials that you might be seeing, whether it's in showrooms versus home centers versus distribution and wholesale. I just kind of want to understand any pricing dynamics in those channels that we should be aware of?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

The way we view pricing is really a function of the strength of our brands and where commodities go as it relates to our ability to drive cost improvement. And there's really no difference in pricing as we think about [ph] that (00:45:03) strategy as it relates to various channels, and we're going to stay consistent with that. Beyond that, I'm not going to get into specific customer discussions or the like as it relates to pricing.

But fundamentally, we look at our capabilities to drive productivities, the strength of our brands and our innovation. And over time, we've demonstrated the ability to get effective pricing over cycles. And when you look at where we are today in the Plumbing business and the ability to continue to drive margin improvements in the face of some challenging volume, I think that really speaks well to our continuous improvement culture and the tools that we have to continue to drive productivity. So there's a lot that goes into pricing, including the desire to gain share, of course, and that's been consistent really how we've approached it over a number of years.

Sam Reid

Analyst, Wells Fargo Securities LLC

Awesome. And then switching gears to Plumbing. Last year, you guys were gaining some shelf space on the paint side in a few different kind of subcategories. Just curious kind of how those conversations with Home Depot are coming this year and whether there's any opportunity to kind of continue to gain share in paint [indiscernible] (00:46:29) part of your initiatives?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah, Sam, we think there is opportunity to continue to gain share. Our relationship with the Home Depot is outstanding. We're focused on DIY paint. We're focused on PRO, and obviously, our Plumbing businesses. Depot is a big customer for us in Plumbing, and we're looking at ways to continue to drive solutions for the consumer that result in share gain, both in terms of shelf and in overall volume. So that's something we always work on and we'll continue to do.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Awesome. Thanks so much.

Operator: Your next question comes from the line of Stephen Kim. Your line is open.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Stephen, you might be on mute.

Stephen Kim

Analyst, Evercore ISI

Q

Can you hear...?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. We can hear you now.

Stephen Kim

Analyst, Evercore ISI

Q

Can you hear?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. We got you now.

Stephen Kim

Analyst, Evercore ISI

Q

Okay, all right. Sorry about that, not sure what happened. It seems like North America Plumbing margins might have been up like 350 basis points or so. It seems like International margins were down due to the volume. I didn't hear you talk about any specific cost saving programs, kind of general efforts and input costs and things of that nature. But could you talk about any specific cost savings programs that you've got going on in North America Plumbing? And give us a sense for how far along they are? How much more maybe we could expect and things of that nature?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. Good question, Stephen. The specific initiative – they cover – I'm hesitating just because the team is doing such a good job across multiple fronts and it's not just in North America, it's also International with Hansgrohe and across our Plumbing platform.

But there's a bucket of initiatives in our pipeline around purchasing and how we buy and who we buy from, and how we can coordinate and consolidate our buy, and that's certainly been beneficial.

Value engineering, where we're looking at our designs and our engineering teams in terms of how we can commonize component sets where it doesn't affect the consumer interface and how we can consolidate volumes and have a bigger purchasing capability and hence, get lower price.

Our operating system begins and ends with a mindset on continuous improvement. So, driving variable cost productivity and gross margin as it relates to how efficiently we leverage our fixed assets, i.e., taking shifts off or adding shifts and being as efficient as we can in that regard.

And then, of course, direct labor efficiencies and how we drive scrap rates and how we drive direct labor and indirect labor productivity. So, purchasing overhead absorption and doing better issue with that, value engineering initiatives that we've kicked off and then managing our new assets that we're bringing online with regards to our Serbian plant and our new paint plant to be as efficient as we can as we bring those up. So, it's all part of the Masco operating system that we're more than a decade into.

And I think earlier, Susan used the word momentum. That's really what it's about. It's about momentum and our leadership teams really getting in the groove of managing pipelines of continuous improvement in cost out projects across the full continuum of our cost drivers.

In terms of what we can expect going forward, you can expect margin enhancements in Plumbing we're talking about and guiding to 18.5% margins in a flat to down kind of year and that shows good productivity initiatives. So, I think our expectations are baked into our guide and we're confident in hitting it.

Stephen Kim

Analyst, Evercore ISI

Q

Yeah, that's really helpful. One thing I forgot to ask with respect to this, as you [ph] reframe in your (00:50:50) remarks is, to what degree is this really just managing the human capital that you have better or well versus any technological improvements that you're seeing introduced into your systems or your [ph] processors (00:51:04)?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

It's a mix. Certainly, having efficient direct and indirect labor and that human capital side is part of it. Certainly, providing leadership and expectations and coordination with the technical – or the human capital on the engineering side is a big component of it. And technology is a piece. And we're a leader, particularly in Plumbing, in the online and the e-commerce space. And we've seen a significant change in how products are flowing through that channel. And we need to look at how we handle distribution and logistics and the technology that's behind that.

Certainly, driving technology changes into the component sets and our component set strategy with regards to how we can have commonized components, as I mentioned, where the customer doesn't see it and then we can have unit volume that can lead to price down. So it's a combination of human management of technology and of

how we reward and incentivize people on how we lead. And that's, again, to go back to our operating system and the momentum that's been created from a decade of applying that.

Stephen Kim

Analyst, Evercore ISI

Q

Yeah. That's really great. Appreciate it. I appreciate all the color. Thanks.

Operator: Your next question comes from the line of Eric Bosshard from Cleveland Research. Your line is open.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Thanks. Two things, if I could. Keith, I appreciate the strategic thinking on pricing and getting value for your brands. I'm curious what you're observing with the consumer regarding price elasticity in an environment where the consumer seems like it's a bit more disciplined?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

It's really hard to get a handle on that, frankly. When you look at a year, two years ago when we have such significant inflation, the elasticity data really didn't apply, and it wasn't nearly as consistent. And it varies by technology, it varies by price point, it certainly varies by in some cases, countries.

So for example, a little bit more price elasticity that we're seeing in China, a little bit more sensitivity, that's a little bit more volatile in other areas with new products and new designs that we launched that are particularly attractive to the consumer. We have a little bit more price elasticity at some price points.

In the lower price point part of our Plumbing assortment for example, we are seeing a little bit more elasticity, a little more challenging, not atypical in environments like this. But we've worked hard to reduce the gap of our margins between the higher end of the assortment and the lower end of the assortment. We have geographic diversity in terms of where we sell.

So all in, when you look at how the consumer is performing or behaving rather relative to price elasticity and you look at our mix, as Rick mentioned earlier, mix really hasn't been so much of a material impact on us, nor do we expect it to be as we look forward. And that's, I think, indicative of our portfolio and our ability to manage those pricing dynamics.

But specifically to your question on elasticity, it's been tough to really understand that, particularly given some of the dramatic and rapid inflationary behaviors that we saw over the last couple years.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Okay. And then secondly, you called out Delta growing, I think, 2% or 3% in what looks like a down market. Is that sustainable for that business to continue to grow in the market that is down? And is there anything that was 1Q specific that contributed to the growth of that business?

Richard Westenberg

Vice President, Chief Financial Officer and Treasurer, Masco Corp.

A

Yeah. I don't know if we cited a specific number. We did say that there was growth in revenue in Delta, really aided by our sales performance in the wholesale channel. What I would say is from an overall standpoint, our guidance for the year from a Plumbing perspective is up or down low single-digits.

North America perhaps performing a bit stronger than International given the lag and recovery in the International markets. So we haven't called specific outlook with regards to North America Plumbing but we're seeing some stabilization as evidenced in Q4 of last year and Q1 of this year and we remain cautiously optimistic.

But as we talked about before, we're early in the year. We're monitoring the situation. And what I would say is our North America or Delta Plumbing business is kind of in line with our guidance for the year at this point.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Thank you.

Q

Operator: And our last question comes from the line of Rafe Jadrosich from Bank of America. Your line is open.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Hi, good morning. Thanks for taking my question. The first I wanted to ask just you had really strong margin performance with volumes declining over the last like a year or so. If you start to see volumes turn positive, how should we think about your incremental margins versus historical levels?

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

I think pretty consistent, Rafe. I think in that 30% to 35% for Plumbing, a little bit lower than that for Decorative, that's been consistent with how we've performed, and I wouldn't anticipate any change in that.

A

And then, of course, on the downside, we managed the decrementals, and we've had some really strong performance in terms of having those decrementals be less than those incrementals, which is indicative of how the teams are managing the volatility, but no real change from what we've seen historically as it relates to the drop down on incremental volume.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Got it. And then on the Dec-Arch side, I think volume now, and correct me if I'm wrong, I think volume is now below the 2019 levels and volume still remains a little soft here. Like how are you working with Home Depot or your channel partners to drive better demand? And what should we be looking for from a macro perspective that could possibly start to drive volumes positive there?

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

How we work with our channel partners to drive demand is across the whole continuum of having the right price of continuing to drive down our cost through productivity initiatives to keep a solid pipeline of innovation, I went through some of that earlier in my prepared remarks of what we're doing to make sure that we have that desired place on the shelf and that top of mind performance in the consumer.

A

So, we work very closely in paint specifically and programs and how we drive DIY. And of course, in PRO, where we've had a significant and continue to have very strong performance as it relates to share gain and profitability in our PRO business. So, it's really continuing to drive and work together beginning first with the consumer and then being partners with our channels.

Robin L. Zondervan

Vice President, Chief Accounting Officer and Investor Relations/FP&A, Masco Corp.

We'd like to thank all of you for joining us on the call this morning and for your interest in Masco. That concludes today's call. Have a wonderful day.

Operator: Thank you, ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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