

MasterBrand, Inc. NYSE:MBC

FQ2 2024 Earnings Call Transcripts

Tuesday, August 6, 2024 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.42	0.45	▲ 4.65	0.49	1.54	NA
Revenue (mm)	676.10	676.50	▲ 0.06	697.60	2693.80	NA

Currency: USD

Census as of Aug-02-2024 12:49 PM GMT

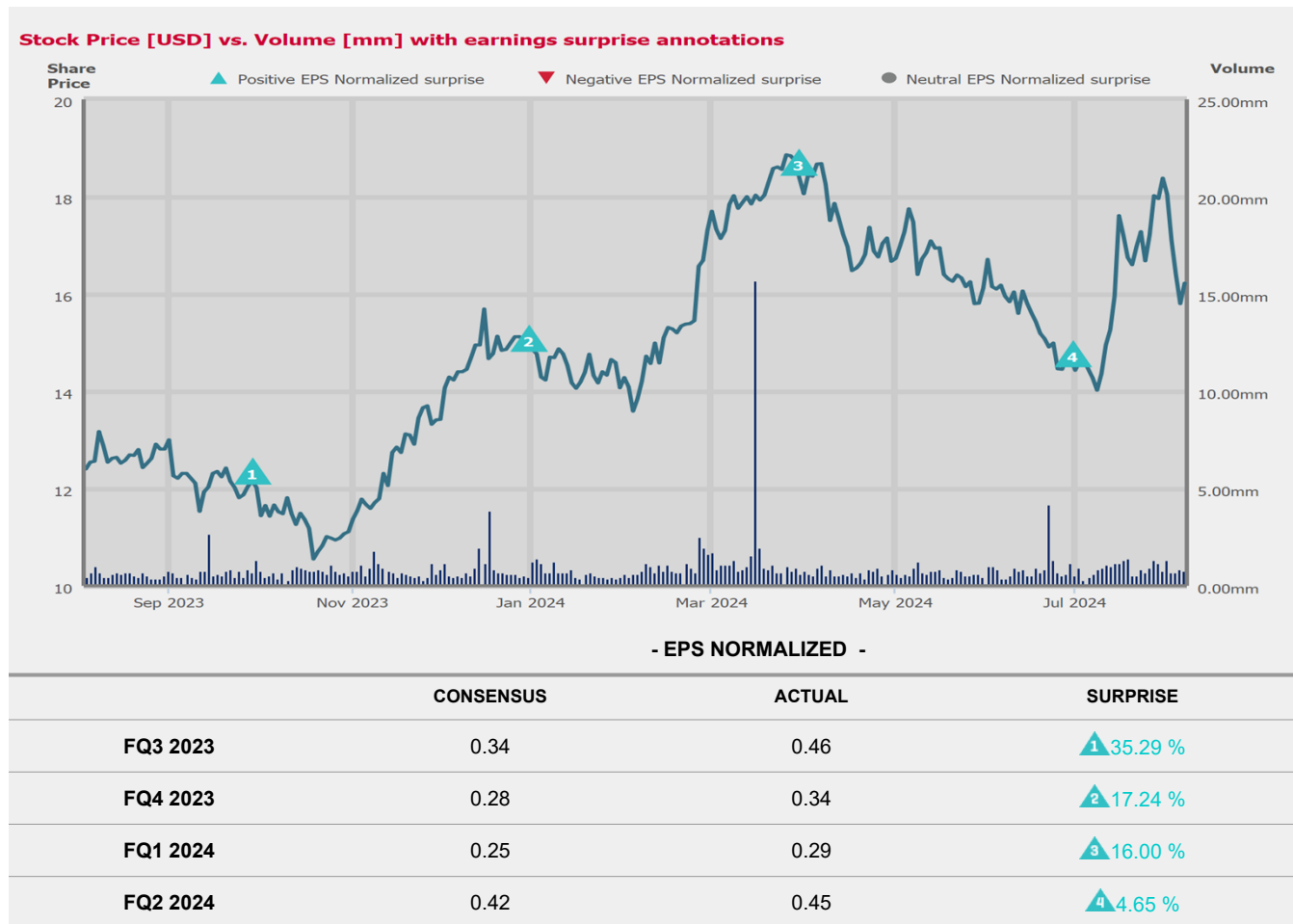


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	10

Call Participants

EXECUTIVES

Andrea H. Simon
Executive VP & CFO

Farand Pawlak
*Vice President of Investor Relations &
External Communications*

R. David Banyard
CEO, President & Director

ANALYSTS

Adam Michael Baumgarten
Zelman & Associates LLC

Garik Simha Shmois
*Loop Capital Markets LLC, Research
Division*

Thomas McNally Mahoney
Cleveland Research Company LLC

Presentation

Operator

Welcome back to MasterBrand's Second Quarter 2024 Earnings Conference Call. We appreciate your patience this afternoon following a brief severe weather delay due to a tornado warning in the Cleveland area. [Operator Instructions] Please note this conference call is being recorded.

I would now like to turn the conference over to Farand Pawlak, Vice President, Investor Relations, Treasury and Corporate Communications. Please go ahead.

Farand Pawlak

Vice President of Investor Relations & External Communications

Thank you, and good afternoon. We appreciate you joining us for today's call. With me on the call today are Dave Banyard, President and Chief Executive Officer; and Andi Simon, Executive Vice President and Chief Financial Officer. We issued a press release earlier this afternoon, disclosing our second quarter 2024 financial results. If you do not have this document, it is available on the Investors section of our website at masterbrand.com.

I'd like to remind you that this call will include forward-looking statements in either our prepared remarks or the associated question-and-answer session. Each forward-looking statement contained in this call is based on current expectations and market outlook, and is subject to certain risks and uncertainties that may cause actual results to differ materially from those currently anticipated.

Additional information regarding these factors appears in the section entitled Forward-Looking Statements in the press release we issued today. More information about risks can be found in our filings with the Securities and Exchange Commission, including under the heading Risk Factors in our full year 2023 Form 10-K, and updated as necessary in our subsequent 2024 Form 10-Qs, which will be available once filed at sec.gov and at masterbrand.com. The forward-looking statements in this call speak only as of today, and the company does not undertake any obligation to update or revise any of these statements, except as required by law.

Today's discussion includes certain non-GAAP financial measures. Please refer to the reconciliation tables, which are in the press release issued earlier this afternoon and are also available at sec.gov and at masterbrand.com.

Our prepared remarks today will include a business update from Dave, followed by a discussion of our second quarter 2024 financial results, along with our 2024 financial outlook from Andi. Finally, Dave will make some closing remarks before we host a question-and-answer session.

With that, let me turn the call over to Dave.

R. David Banyard

CEO, President & Director

Thanks, Farand. Good afternoon, everyone. We appreciate you joining us here today for our second quarter 2024 earnings conference call.

We've had productive several months since we last spoke. We delivered another solid quarter of financial performance, and our associates continue to make meaningful strides across all of our strategic initiatives. We announced our acquisition of Supreme Cabinetry Brands, our first transaction as a stand-alone public company, which we will share more details on shortly.

Lastly, in concert with the transaction, we restructured our debt. A busy period for the team, but I'm proud of what we accomplished and our prospects for the remainder of the year as we continue to navigate choppy end market demand.

Now let me provide a little more detail on each of these areas. Net sales in the second quarter of 2024 were \$677 million, a 3% decline over the same period last year. This low single-digit decline was in line with our expectations, as year-over-year volume growth was offset by the continued impact of lower ASP due to anticipated trade downs and normal promotional activity.

We saw healthy performance from our customers in the new construction market, driving our year-over-year volume growth, with continued growth in both large and medium builders and small builders turning positive in the second quarter. We believe our strategic initiative work, specifically around Align to Grow has allowed us to capitalize on this and to perform at or above the underlying market conditions.

As I mentioned on prior calls, our Align to Grow initiative enables us to focus on the right parts of the market, the right customers with the right products at optimal service levels. We benefited from this last year as we launched new products and channel-specific offerings, specifically targeting production builders, and our net sales continue to benefit from these efforts in the second quarter of 2024.

Moving to operations. MasterBrand continued to perform well. We delivered adjusted EBITDA of \$105 million in the second quarter and a related margin of 15.5%, 20 basis points higher than the same period last year. Our margin expansion was again driven by cost savings from our strategic initiatives and continuous improvement efforts, which more than offset the negative impact of lower average selling price, personnel inflation and strategic investments.

Our Tech Enabled initiative, particularly our work on quality processes, played an increasing role in expanding our adjusted EBITDA margin. Better data fidelity has continued to drive improvements in our quality processes, which improved both internal productivity as well as customer satisfaction. In several cases, we've heard from customers that our performance on both quality and delivery is industry-leading. We know we have more opportunity for improvement. And our digital tools, paired with the MasterBrand Way, give us a road map to improve the customer experience.

In addition to year-over-year personnel inflation in the second quarter, we've seen inflation increase sequentially in other areas of our cost of goods. While it did not have a material impact on the second quarter, we do anticipate certain costs to increase for the remainder of the year.

Because of this, we chose to implement price increases in the second quarter across all our brands in the dealer and builder direct channels. Andi will provide more details on the timing of the anticipated benefit to our net sales and what this could mean for the phasing of our adjusted EBITDA margins in the second half of 2024.

From a cash generation standpoint, we delivered another strong quarter of free cash flow at \$66 million, as the team continued to make improvements around working capital management. While this is lower than the same period last year, it's important to remember that 2023 benefited from the release of a 2022 strategic inventory build, meant to ensure service and delivery through various supply chain constraints. As you can see, a very solid quarter of financial and operational performance from our associates.

Now let's shift gear to our acquisition of Supreme Cabinetry Brands. For those of you still unfamiliar with the transaction, I'll briefly touch on the key points. On May 21, we entered into an agreement to acquire Supreme Cabinetry Brands for \$520 million, and subsequently closed on the transaction after the quarter end. Supreme is a highly regarded manufacturer of premium cabinetry, offering a robust portfolio of on-trend products, with a focus on premium kitchen and premium bath category.

Since the founding in 1954, they've built an impressive track record of product innovation across their premium brands, including Dura Supreme and Bertch, while also achieving significant growth and profitability. Over this same time period, they've developed an exceptional dealer network, which they service through their 3 manufacturing campuses in Howard Lake, Minnesota, Waterloo, Iowa and Statesville, North Carolina.

What is so compelling about this acquisition is the strategic fit and near perfect alignment with our growth priorities and our channel and product strategy. Supreme enhances MasterBrand's portfolio with complementary products in the premium kitchen categories. Bertch also has a well-recognized premium bath brand, which gives us great growth opportunities in the subtractive portion of the market. Supreme and MasterBrand have complementary dealer networks with very little overlap, resulting in channel distribution capable of reaching more customers and end consumers than ever before. Lastly, the combination of the 2 companies' operations present compelling and identifiable cost synergies.

Inclusive of the \$28 million of anticipated annual run rate cost synergies in year 3 following the acquisition, our purchase price multiple of adjusted EBITDA is approximately 5.9x. While it has only been about 1 month since the close, we're off to a great start and are confident in this transaction.

I'd specifically like to thank Tony Sugalski and his entire executive team, who are staying with the organization, for their support and partnership. He and his team, along with all Supreme associates have really hit the ground running and are leaning into this integration while continuing to manage their business with excellence. As I sit in meetings with them and the legacy MasterBrand associates, it's great to see the new team come together and embrace our shared purpose of building great experiences together.

Andi will provide you with more details on the near-term financial benefits of the Supreme acquisition when she discusses our updated 2024 outlook.

With the acquisition of Supreme, MasterBrand is now utilizing all the pillars of our capital allocation strategy, reinvest in the business, maintain a healthy balance sheet, disciplined M&A and return value to shareholders.

When it comes to the balance sheet, we took the opportunity this quarter to act on favorable market conditions and enhance our capital structure. For those of you that might recall, listed to the capital markets in late 2022 to finance our dividend Fortune Brands. The timing wasn't [optimal] given the general uncertainty around the economy and the housing market.

Now with our positive track record as a stand-alone company and improved debt market conditions, we chose to pay off our remaining term loan balance with the proceeds from our privately offered senior notes and replaced our existing revolver with an expanded credit facility. Following our favorable ratings with all 3 credit agencies, we were able to successfully increase the size of our credit facilities, extend the maturity and lower the cost of capital. Overall, great work by the team getting this completed before the acquisition closed.

Before I hand the call over to Andi to discuss our outlook, I'd like to provide a brief update on end market demand and our expectations for the remainder of the year. Market demand in the second quarter was largely in line with our expectations, with some slight puts and takes between our customer servicing the new construction market and our customer servicing repair and remodel market. That being said, as we progress through the quarter, we've seen some signals that temper our expectations for the remainder of the year.

For those customers focused on the U.S. single-family new construction market, we saw demand increase year-over-year low teens in the second quarter. We service all sizes of builders in the U.S., and as mentioned, we were pleased to see all portions of the market grow year-over-year, with large production builders performing the best.

Large production builders, both public and private, continue to benefit from their scale and the ability to offer incentives, such as rate buydowns, which provides them an advantage over not only other builders, but existing home purchases as well.

Looking to the back half of the year, we expect to see continued growth in the new construction market, but more moderate rates year-over-year and slower sequentially. While public builder comments remain optimistic, slower new housing starts and high inventory of spec homes points to a potentially more muted outlook for single-family new construction.

These muted expectations are also due to normal seasonality and more challenging year-over-year comparables in the second half of the year. We remain positioned to perform at or above the market going forward due to our prior Align to Grow work for builders. In total, we believe this market will still grow mid-single digits year-over-year for 2024.

Moving to the repair and remodel market serviced by our dealer and retail customers. Demand was on the softer side of expectations, albeit within our range. Lower foot traffic and extended decision times continue to be a headwind for our customers, as end consumers remain hesitant about committing to large purchases. The market had been flat sequentially as we entered the second quarter. However, we saw increasing choppiness in our orders as the quarter progressed.

Feedback from our channel servicing the repair and remodel market, suggest this choppiness will continue in the second half of 2024. Add to this, recent economic data suggest that consumer spending faces headwinds, which we believe could continue to slow R&R spending on large ticket items. With these factors in mind, we anticipate R&R demand to now be at the lower end of mid-single-digit declines for the full year 2024.

In Canada, both the new construction and repair and remodel markets remained slow year-over-year as expected. While there continues to be commentary related to steps the Canadian government has taken to improve housing affordability, the new housing market remains weak. We expect to see soft end market demand continue, in line with our previous outlook. Despite this weak demand backdrop, we remain pleased with our overall performance in the market, as our team in Canada continues to strengthen builder direct relationships across the country.

Based on these factors and current macroeconomic conditions, we expect these recent softer end market trends for the remainder of the year. While it appears the capital markets are factoring in rate reductions by the Fed later this year, it's important to remember that our outlook was more predicated on rate stability and on rate reductions.

To the extent that rate reductions by the Fed either improve consumer sentiment, triggering more R&R activity, or improve existing housing turnover or new home affordability, we could see some slight improvement in demand. We would not expect this demand to translate into higher net sales in the second half of 2024. With these factors in mind, we now expect end market demand to trend towards the lower end of our expected range of down low single digits year-over-year in 2024.

Now I'll turn the call over to Andi.

Andrea H. Simon
Executive VP & CFO

Thanks, Dave. I'll begin with an overview of our second quarter financial results, then I'll provide our thoughts around the back half of 2024 and our updated full year outlook that includes the acquisition of Supreme.

Second quarter net sales were \$676.5 million, a 2.7% decline compared to \$695.1 million in the same period last year, and in line with our expectations. Our top line performance was primarily the result of year-over-year growth from our customer servicing the new construction market, offset by continued softness in the repair and remodel market and pressure on our net ASP, largely due to continued yet stabilized trade-down activity across the business.

Gross profit was \$231 million in the second quarter compared to \$236.2 million in the same period last year. Gross profit margin was 34.1% compared to 34% in the second quarter of last year. We achieved 10 basis points of gross margin expansion despite lower sales as our strategic initiatives, notably around quality processes and other continuous improvement efforts, more than offset the negative impact of lower ASP and personnel inflation. As a reminder, the second quarter of last year also included \$2.2 million of nonrecurring insurance proceeds due to the tornado damage sustained at our Jackson, Georgia facility in the first quarter of 2023.

Selling, general and administrative expenses were \$146.7 million, a 3.5% increase compared to the same period last year, primarily driven by \$4.4 million of acquisition-related costs, higher investments in our Tech Enabled initiative and personnel-related inflation, which was partially offset by lower distribution and commission costs as a result of the decrease in net sales.

Net income was \$45.3 million in the second quarter and 11.5% year-over-year decrease compared to \$51.2 million in the same period last year. This decline was primarily driven by lower net sales, nonrecurring interest expense of \$6.5 million related to the restructuring of debt, \$4.4 million an acquisition-related costs and the nonrecurring \$2.2 million of insurance proceeds in 2023 related to the tornado at our Jackson, Georgia facility.

These combined headwinds were partially offset by lower income tax expense of \$14.8 million, representing a 24.6% effective tax rate, which compares to \$18.5 million or a 26.5% rate in the second quarter of 2023, which was partially related to items from the spin-off from Fortune Brands.

Diluted earnings per share were \$0.35 in the second quarter of 2024 based on 130.7 million diluted shares outstanding, a decrease from diluted earnings per share of \$0.39 in the second quarter of last year based on 129.9 million diluted shares outstanding. Adjusted diluted earnings per share were \$0.45 compared to \$0.44 in the prior year quarter.

As stated in our earnings release this afternoon, effective as of the second quarter, adjusted earnings per share have been revised to exclude amortization expense, including those related to the acquisition of intangible assets. The resulting impact to our adjusted EPS for the second quarter 2024 and the comparable period equates to a \$0.02 increase and will total \$0.08 for the full year. This does not include any impact of amortization from the Supreme transaction.

Adjusted EBITDA was \$105.1 million compared to \$106.3 million in the same period last year. Adjusted EBITDA margin expanded 20 basis points to 15.5% compared to 15.3% in the comparable period of the prior year despite lower sales. This margin expansion was driven by our higher gross margins, which again were the result of cost savings driven by our strategic initiatives, including quality process enhancements and other continuous improvement efforts, which more than offset the negative impact of trade downs, strategic investments and personnel inflation.

Turning to the balance sheet. As Dave mentioned, we had a very successful debt refinancing, including the private offering of senior notes. In addition to lowering our interest rate, we received favorable terms, increased our overall liquidity, eliminated required amortization payments and extended our maturity profile. With our revolver maturing in 2029 and our senior notes maturing in 2032, we believe our new capital structure provides us increased financial flexibility and security to execute on our strategy and achieve our long-term financial targets.

Net debt at quarter end was \$499.5 million, resulting in a net debt to adjusted EBITDA leverage ratio of 1.3x at the end of the second quarter, down from 1.7x in the second quarter of 2023. This does not reflect the impact of the Supreme acquisition, as we drew down on our new revolver after the quarter end to partially finance the transaction.

Following the transaction close on July 10, our net debt to adjusted EBITDA was 2.3x on a pro forma trailing 12-month basis. We still anticipate lowering this to less than 2x within 2 years of the transaction date, assuming no additional M&A activity.

Operating cash flow was \$96.1 million for the 6 months ended June 30, 2024, compared to \$194 million in the comparable period last year, and ahead of our expectations. As we noted, the second quarter of 2023 reflected a planned nonrecurring release of our

2022 strategic inventory build to address various supply chain constraints. The impact of this inventory release mask the incremental improvement we made in our shared services' ability to collect and pay invoices and negotiate improved terms, which has benefited both our days payable outstanding and our days sales outstanding year-over-year.

Capital expenditures for the 6 months ended June 30, 2024, were \$18.3 million compared to \$11.4 million in the prior year period. As mentioned on our last call, we made the decision to accelerate investments in the business, specifically in our Tech Enabled initiative. With the addition of Supreme, we now expect 2024 capital expenditures to be in the range of \$65 million to \$75 million compared to our prior range of \$55 million to \$65 million.

Free cash flow was \$77.8 million for the first 6 months of 2024 compared to \$182.6 million in the comparable period last year. Similar to operating cash flow, the year-over-year decline was largely due to the planned inventory reduction from our 2022 strategic build previously discussed. Our free cash generation in the second quarter was ahead of our expectations, and we continue to expect free cash flow to be in excess of net income for 2024, which includes both the net income and free cash flow impact of Supreme.

Finally, during the second quarter, we repurchased approximately 267,000 shares of our common stock under our existing stock repurchase program for a total of \$4.6 million. We have approximately \$21 million left under our existing repurchase authorization.

Turning to our outlook. As Dave mentioned, we now expect our end market demand to trend towards the lower end of our original outlook, down low single digits year-over-year in 2024. With our customers servicing the R&R market seeing softer demand persisting, we do not see a path to the legacy MasterBrand business achieving flat net sales year-over-year.

Despite these market conditions, we are benefiting from our past and current strategic initiatives and investments for growth, and remain confident in our ability to outperform the underlying market. As such, we expect organic net sales to be down low single digits.

Let me provide some additional color on our expected MasterBrand legacy net sales and adjusted EBITDA cadence in the back half of the year. We expect our quarterly net sales to be relatively consistent across the third and fourth quarter, but departure from normal seasonality. Trade downs and promotional activity should continue at a similar pace to the first half of the year, but the impact will moderate from a year-over-year perspective as we are lapping the onset of these in 2023, predominantly in the fourth quarter.

Additionally, we expect fourth quarter net sales to benefit from recently implemented price and the traction we're getting with new products and channel-specific offerings, allowing the quarter to outperform normal seasonality in what is typically a lower quarter within the year.

Based on this quarterly net sales cadence, the timing of price realization compared to the sequential cost of goods inflation, further investment in our Tech Enabled initiative and the nonrepeating \$6 million benefit in the third quarter of 2023, specifically the insurance proceeds related to Jackson, Georgia and medical insurance rebates, we expect headwinds to adjusted EBITDA margins in the third quarter of 2024.

We would, again, not expect normal seasonality to play out in the fourth quarter due to the favorable impact of pricing actions, new product launches and program wins and the annualization of trade downs. We anticipate Supreme to perform in line with our expectations from the time of the transaction, contributing mid-single digits to our net sales growth percentage for the full year.

On a combined basis, our revised full year 2024 net sales outlook is an increase of low single digits. On this higher combined net sales outlook, we are raising our expected adjusted EBITDA range to \$385 million to \$405 million and related adjusted EBITDA margins of 14% to 14.5%, flat year-on-year to slightly up compared to full year 2023. This outlook anticipates Supreme to be accretive to adjusted EBITDA margin, and excludes estimated onetime costs of slightly more than \$20 million related to acquisition and integration costs.

Our interest expense is now expected to be approximately \$73 million to \$76 million. It's important to note, while our interest rate is lower, our overall debt level has increased, resulting in a higher interest expense going forward. This interest expense includes both the new debt to finance the acquisition as well as the nonrecurring interest expense of \$6.5 million related to the restructuring of our debt. Our anticipated tax rate between 24% and 25% has slightly improved from our prior guidance.

On balance, we now expect our full year adjusted diluted earnings per share will be in the range of \$1.50 to \$1.62, which now includes the favorable impact of Supreme. It's worth noting that absent the exclusion for amortization, the Supreme acquisition would still be accretive to adjusted diluted earnings per share in fiscal 2024.

As I mentioned earlier, our updated outlook for capital expenditures for the combined company is expected in the range of \$65 million to \$75 million, inclusive of onetime integration CapEx of approximately \$4 million. This combined investment is approximately 1.3x depreciation, which is within our stated long-term goals.

Now I would like to turn the call back to Dave.

R. David Banyard
CEO, President & Director

Thank you, Andi. We're pleased with our results year-to-date, and we're excited at the progress we've made to position our business for near- and long-term growth.

While 2024 is shaping up to be more of a transitional year from a demand standpoint, we think the fundamentals of the housing market, such as the gap in housing supply and an aging inventory of existing homes, bode well for MasterBrand going forward. We believe continued execution on our stated strategy, investments for growth and acquisitions such as Supreme, will allow us to capitalize on these trends and create long-term value for our shareholders.

As always, we appreciate your support and look forward to updating you on future calls. Now with that, I will open up the call to Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question is from Garik Shmois with Loop Capital Markets.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

First off, just in light of the choppier end market. Just wondering if you could speak to what actions you're taking on the manufacturing side to adjust to maybe a little bit slower organic demand?

R. David Banyard

CEO, President & Director

Yes. Thanks, Garik. I think it's been choppy, make that equation very difficult. So when we say choppy, it's -- you have some weeks where you have pretty good orders and some weeks where you don't have good orders. And so I think in general, we're pretty good with where we're running from a capacity standpoint. And so there's maybe a little throttling down in a couple of areas, but it's not necessarily material for the long range here because, again, I don't think that the market hasn't inflected in any particular way.

So we're kind of managing through that is probably the best way I can say it. And there's a little bit of choppiness that, that brings to the P&L because of that. But I think it's prudent at this point until we see something materially change to kind of hold where we are on that front. So it's a little bit of just having to manage through the choppiness. Again, it's not material enough in terms of an inflection that I'd say in the market that it's really time to take any sort of significant action. So it's really more managed through it. And that -- in the short term, that's the best we can do.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. Second question is just on pricing. You talked about implementing price increases that's going to impact the second half of the year. But you have been seeing trade downs, which you spoke to as well. So just hoping you could expand on what will end up happening with the trade-down impact as prices end up moving higher? Do you anticipate that becoming even more exacerbated in this macro environment? Or are you actually seeing some stabilization on the trade-down impact?

R. David Banyard

CEO, President & Director

Yes. Thanks. That's a good question. I think the -- what we're seeing is it's been developing for quite some time now, is kind of a separation of the high end of the market and the low end of the market. And so I think that the pricing impact is probably not going to affect that change. It's already occurred. So we haven't really seen any material change in the pattern. Very robust patterns in our lower-end products, a lot of that trade down occurred there. And then decent pace in the premium side of the market as well. And so typically, those customers are already in the place where they want to be.

And also, I'd say, the pricing action is not abnormal. It's sort of more what I'd call regular pricing action. It is the normal course prior to COVID was the beginning of the year. This is a little bit different timing, but I think it's in magnitude roughly similar to what we would do in the past. And so it's real -- and again, the inflation is kind of what I call normal as well.

It's not something that's an inflection point that we see, but it is going to stick for a bit. So we think that we need to take action price-wise. So I think -- you've already seen that movement occur with the consumer to move into the kind of the bookends of our product portfolio, and we haven't seen any material change from that with any of the changes we've made with price.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. And then just my last question just on Supreme. I mean you did speak to seasonality in the second half of the year on the legacy business. But I was wondering if you could speak to any seasonality on Supreme and how we should think about that?

R. David Banyard

CEO, President & Director

Yes, I think what you're seeing, part of this, the strangeness of this period is we didn't close right at the end of Q2. So there's a couple of weeks there where we did not own Supreme. So that -- but typically, they follow a similar pattern to us with seasonality.

However, this year, it's probably going to be more equivalent because of missing that couple of weeks that we didn't own them in the early part of July. So they will normally see the same thing we see at the end of the year where shoppers turn to other products, which we expect to see again as well this year, but I think because of other programs we've put out.

The other thing I'll say is that Supreme, similar to us, has some new product launches and some new programs coming out that will hit in the fourth quarter as well. So we're kind of -- we're just kind of aligned on that. Nothing through expert planning here, but it all kind of aligned that we're kind of following a similar pattern through the year. But I think, normally, you would expect Supreme to follow a similar trajectory through the year that we do. It's just this year is going to be different for both of us for a variety of reasons.

Operator

Our next question is from Adam Baumgarten with Zelman & Associates.

Adam Michael Baumgarten
Zelman & Associates LLC

Question on Supreme. Give us what you expect the company to contribute from a revenue perspective. But within the updated adjusted EBITDA guidance for the year, what are you assuming for Supreme within that?

R. David Banyard
CEO, President & Director

Yes, Adam, we're kind of covering the whole company as a whole in the EBITDA line. We were a single segment, and so we're kind of reporting as a single segment moving forward. And that's as far as we're going to go on that. I think the way to think about it is our -- the legacy company is kind of the low end of the range of previous estimates from last quarter. So that kind of gives you an idea of where it all fits.

Adam Michael Baumgarten
Zelman & Associates LLC

Okay. Got it. That's helpful. And then just on the pricing, you talked about raising pricing in dealer and I think builder direct. Not sure, it doesn't sound like you're raising pricing in the retail channel. Is that just because it takes more time or you just don't need to or maybe you're not able to? Just curious on the pricing side.

R. David Banyard
CEO, President & Director

Yes. Sorry. Our retail pricing model is one that's ongoing. It's reviewed every quarter. So we didn't include it in that comment, but we are always adjusting price with the retailer every quarter based on an index-based pricing arrangement. So we don't take the same types of actions. We have different pricing mechanisms with the home centers. And so we would anticipate that as inflation comes into our P&L, it flows through to the retail channel as well. It just happens in a different mechanism.

Operator

Our next question is from Tom Mahoney with Cleveland Research.

Thomas McNally Mahoney
Cleveland Research Company LLC

I'm interested in the nature of the costs that are moving higher. Is this related to ocean transportation? Or are there specific inputs that are moving higher? Just interested in those moving pieces?

R. David Banyard
CEO, President & Director

Yes, I'd say -- I mean, certainly, ocean freight is a component of it, and that's a market that if you follow, it's come up quite a bit. So that is a component of it.

There are some other components, some of which -- there's just a general back to inflationary environment in a couple of materials, some of which are meaningful, I think, in general. It's -- again, it's not -- none of this is an inflection of large increases, but it's enough

that it affects the overall P&L. So it's -- ocean freight is a big component of that. But there are other costs in a variety of different areas.

Thomas McNally Mahoney
Cleveland Research Company LLC

Okay. Makes sense. And then back to the comment that you made about the cadence of demand in the quarter. Can you just go over that one more time? I think what you said is you started better than you had finished. I'm interested if there's any differences between the dealer and retail channel?

And then lastly, any feedback on the size of jobs moving forward or any read on project leads and backlog activity at this point in time?

R. David Banyard
CEO, President & Director

Yes. Really, Tom, what's kind of informed our guidance is that, that order pattern and the backlog choppiness. And it's predominantly, if not all, in the R&R space, which covers both dealer and retail. And it's different in different categories.

I think in retail, it's a little more in the stock category than in the make-to-order category. Now our -- at the home centers, our make-to-order product is almost off in a value-oriented product as well. So we're seeing strength in that, but it's -- the orders are not coming in at a what I'd call a regular cadence. And so it just gives you a pause to say it's -- there's a little bit of hesitancy on the consumer front.

Again, not a major inflection point. It's -- you'll have a kind of a slower week and then a stronger week. Early July this year with the timing of where the holiday was, I think it was particularly slow. A couple of categories in late June were kind of slow.

But you have to just manage the backlog back to the question that Garik asked earlier. I mean we have to keep our factories at kind of a steady pace. And we use the Lean tools to make sure we can throttle them up and down within that range, but it's -- we're sort of tuning them to a slightly lower level, just anticipating that this choppiness will continue. Again, I don't think it's a -- it doesn't feel like a big trajectory change. It's just a little slower than what we had expected.

Operator

We have reached the end of our question-and-answer session. I would like to turn it back over to Farand for some closing remarks.

Farand Pawlak
Vice President of Investor Relations & External Communications

Thank you, operator, and thank you all for the flexibility this afternoon. We appreciate your interest and support, and we look forward to speaking with you in the future. This concludes our call.

Operator

Thank you. This will conclude today's teleconference. We will have a replay available. To access the replay, you may dial in at (877) 660-6853 and the access ID code is 13747550. That will be available in approximately 2 to 3 hours and it will be replayed for the next 2 weeks. Thank you for your participation, and have a good evening.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. **THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION.** In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2024 S&P Global Market Intelligence.