

MasterBrand, Inc. NYSE:MBC

FQ3 2024 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.36	0.40	▲11.11	0.39	1.48	NA
Revenue (mm)	724.70	718.10	▼(0.91 %)	724.50	2764.00	NA

Currency: USD
Consensus as of Nov-01-2024 11:56 AM GMT

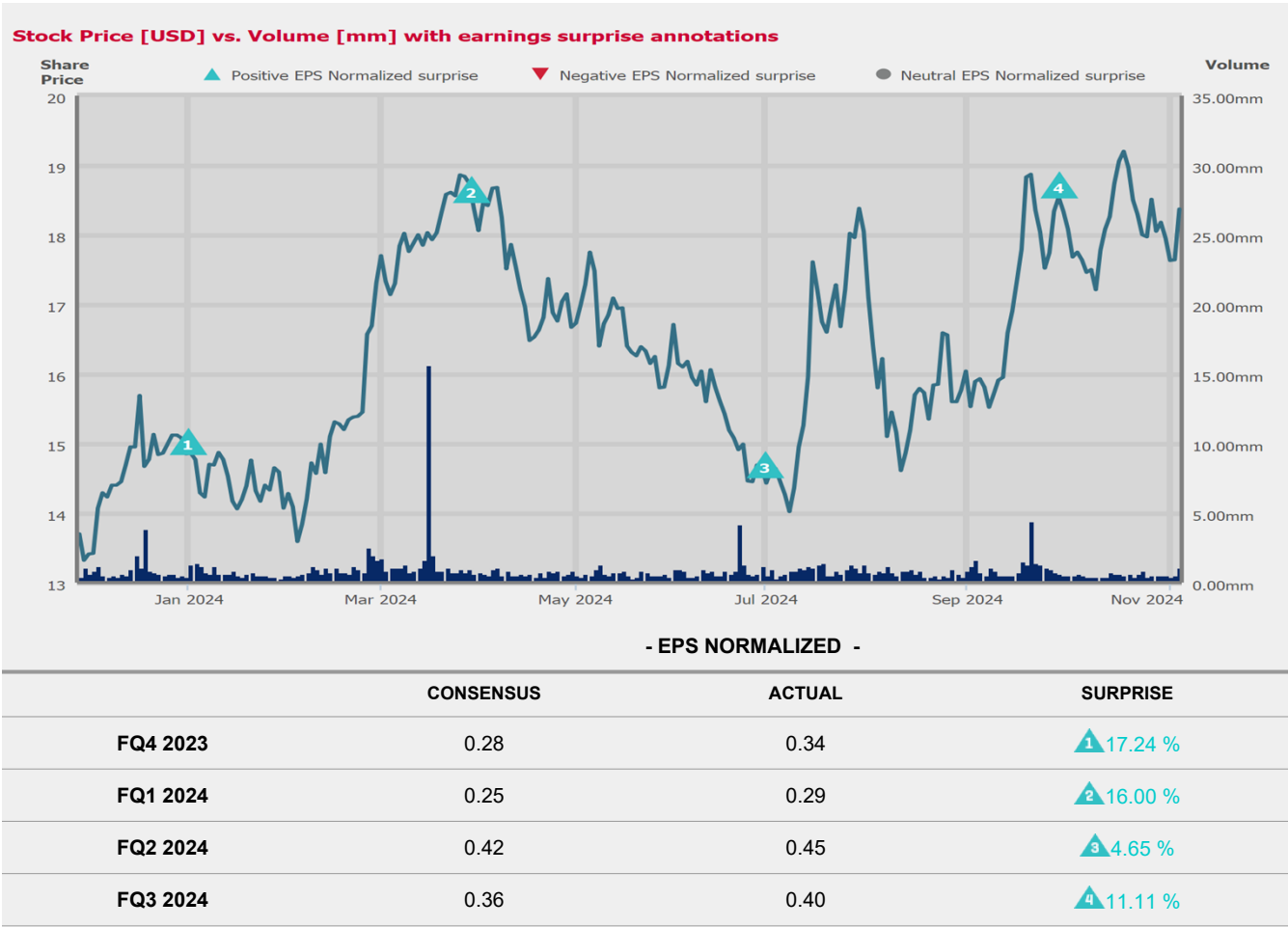


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Call Participants

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Presentation

Operator

Greetings, and welcome to the MasterBrand's Third Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host Farand Pawlak, Vice President of Investor Relations. Thank you, sir. You may begin.

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 third 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. These forward-looking statements are based on current expectations and market outlook and are 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 third 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 for our third quarter 2024 earnings conference call. We released our third quarter financial performance earlier today, and I'm pleased to say that we continued to perform in line with our expectations. Net sales in the third quarter of 2024 were \$718 million a 6% increase over the same period last year, driven by our acquisition of Supreme Cabinetry Brands earlier in the quarter. I'll provide more detail on the acquisition and integration shortly, but suffice to say, it's going well.

The growth from our acquisition was partially offset by lower net average selling price in our core business. It's worth noting, while we still see a year-over-year headwind from this, the sequential impact is relatively stable. Volume was flat in the third quarter as compared with the same period of 2023 as continued strength with our customers servicing new construction was offset by soft demand in the repair and remodel end market. We delivered adjusted EBITDA of \$105 million in the third quarter and a related margin of 14.6%, 160 basis points lower than the same period last year. This anticipated margin contraction was due to the timing of price realization compared to sequential inflation in our cost of goods, further investment in our strategic initiatives and a \$6 million benefit in the third quarter of the prior year that did not repeat.

If you remember from our last earnings call, we began seeing sequential inflation in some materials and inbound freight. Accordingly, we implemented pricing actions in an effort to maintain a favorable price/cost relationship but we only started seeing the benefit of these increases in the fourth quarter. This dynamic, as anticipated, is impacting the typical seasonal cadence of our net sales and margin. While the third quarter saw a seasonally lower than normal adjusted EBITDA margins, the fourth quarter is expected to have seasonally higher than normal adjusted EBITDA margins, resulting in more normalized decremental margin performance for the second half of the year.

Shifting to cash generation. We delivered another strong quarter of free cash flow at \$65 million, bringing our year-to-date total to \$142 million. While this is lower than 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 at that time. Given our performance year-to-date, we feel confident in our ability to deliver on our stated goal of free cash flow in excess of net income for the full year 2024.

Achieving these results is a testament to the hard work and skill of our associates as end market demand remained choppy throughout the quarter.

I'd like to provide a brief overview of what we saw on end market demand and our expectations for the remainder of the year. Market demand in the third quarter was largely in line with our expectations. Customers focused on the U.S. single-family new construction market continued to perform well, with year-over-year market growth of mid-single digits. This growth has moderated slightly from prior quarters as anticipated as we have begun to lap increasingly stronger comparables from the prior year. With only the fourth quarter left, we see no change to our full year market expectations. We still expect this market to grow mid-single digits year-over-year for [2024].

With that said, we have seen signals of moderating demand from our builder direct customers. Pockets of spec home inventory caused production builders to slow start activity for a short period, which is in line with the trend of softer single-family housing starts reported by the U.S. Census Bureau during the third quarter. While these numbers have begun to trend up again, we expect the gap between higher completions seen in the third quarter and softer starts will most likely create a future pocket of soft demand in this market. We believe recent new customer wins, which I'll discuss shortly, will help us mitigate potential choppy end market demand and allow us to deliver continued growth in this portion of the market in the fourth quarter and beyond.

Shifting to the repair and remodel market serviced by our dealer and retail customers, demand remained relatively soft through the quarter as consumers continue to be hesitant about committing to large purchases. General economic and political uncertainty, specifically today's general election, appear to have consumers staying on the sideline when it comes to big ticket items, resulting in our customers continuing to see slow foot traffic and extended decision times. This, coupled with low housing turnover remains a near-term challenge to a repair and remodel recovery. We believe this choppiness will continue through the end of the year and in line with our prior expectations resulting in repair and remodel demand at the low end of mid-single-digit declines for the full year 2024.

Looking briefly at the Canadian end markets. Both the new construction and repair and remodel markets remain soft year-over-year as expected. Similar to the U.S., housing affordability remains a challenge and new housing remains weak despite the multiple rate reductions in Canada. We expect soft end market demand to continue in the fourth quarter, in line with our previous outlook. As you can see, end market demand has largely played out as anticipated, and we see no meaningful change for the remainder of the year. Accordingly, we are reiterating our full year 2024 outlook, which Andi will speak to in greater detail shortly.

While we are not discussing 2025 outlook, I think it's worth touching on some of the macroeconomic indicators we are watching to get a sense of future demand. Since our last earnings call, the Federal Reserve reduced its target interest rate by 50 basis points and is signaling future rate reductions. This has not yet resulted in sustained lower mortgage rates in the near term and, therefore, has not stimulated more housing turnover and the related repair and remodel activity to date. While further actions by the Federal Reserve could stimulate demand, we expect the benefit would not be seen in our business until sometime in 2025. Accordingly, we expect to enter next year in a similar end market demand environment as the one we see now.

With this market backdrop in mind, we continue to focus our efforts on how we can drive growth and profitability in any market condition. I'd like to briefly touch on how we're doing this through our strategic initiatives in our legacy MasterBrand business and how we're accelerating that through acquisitions like Supreme. As I mentioned, our performance was only possible because of the dedication of our associates. Their disciplined use of the MasterBrand way has allowed us to make meaningful progress across all 3 of our strategic initiatives: Aligned to Grow, Lead Through Lean and Tech Enabled. We continue to execute on these initiatives in an effort to drive efficiency and grow the business in targeted areas.

As recently as our first quarter earnings call, I discussed how our Align to Grow initiative was driving growth through new product and channel specific packages launched for our large builder partners. We saw excellent results from those efforts with many of these top builders awarding us new business. While it takes some time for these projects to go into production, we have now begun to see the financial benefit of these previous efforts in our third quarter performance and into the fourth quarter. We believe similar Align to Grow efforts currently underway will produce the future growth we need to outperform the market conditions and ultimately ensure we're well positioned to achieve our long-term financial targets.

Our Lead Through Lean initiative continues to drive a culture of problem-solving at all levels of the organization. Our associates equipped with the tools of the master brand way are driving continuous improvement throughout the company with some of the greatest savings being realized in quality processes. The quality team continues to leverage near real-time data provided by our enhanced digital infrastructure to improve and lower the cost of quality. Collectively, our continuous improvement efforts this year have positioned us to achieve our goal of delivering an incremental \$50 million in savings, and we believe we have more opportunity in future periods.

I just mentioned how our digital infrastructure is providing better insights to our quality team. This is just one example of how our Tech Enabled initiative is helping our associates to perform their jobs more efficiently and enhancing our products. Beyond our 4 walls, we continue to focus on improving our connection with channel partners through the rollout of MasterBrand Connect, our improved customer portal. Additionally, we're developing tools to provide consumer insights directly to our channel partners, better positioning our customers to win business is a key focus for us, and we believe improving their ability to focus on the end consumer will enable our customers and ourselves to gain share and outgrow the market. As you can see, there are a variety of ways we are investing in the business for growth, regardless of market conditions.

Now let me provide you with an update on the Supreme integration and how we're creating value through operational and commercial synergies in this acquisition. As I've mentioned before, we believe the combination of the 2 companies' operations present compelling and identifiable synergies. We have already begun to make progress. Following the close of the transaction, our supply chain and operations teams began to solidify plans and act. Since our last call, we've announced targeted consolidation within our 2 Waterloo, Iowa facilities, creating a center of excellence. Given these facilities are within 15 minutes of each other, it provided an obvious opportunity to bring elements of these 2 industry-leading teams together. Through this center of excellence, we plan to begin realizing our targeted savings, offering our customers enhanced levels of service and reestablishing our commitment to staying a fixture in the local community.

In addition to the cost synergies we previously identified, we now have a better understanding of the potential commercial opportunities from this transaction. With our dealer integration well underway, we're quickly working on equipping both MasterBrand and legacy Supreme dealers with new product offerings. While the full benefit of this commercial opportunity will take some time to realize, we know many of our dealer partners are excited by it.

Overall, I remain extremely pleased with the progress our combined teams have made on the integration. Their professionalism and performance today gives me further confidence in our ability to identify and act on other value-creating acquisitions in the future.

With that, I'll turn the call over to Andi.

Andrea H. Simon
Executive VP & CFO

Thanks, Dave. I'll begin with an overview of our third quarter financial results, then I'll provide our thoughts around the final quarter of 2024 and our full year outlook. Third quarter net sales were \$718.1 million, a 6% increase compared to \$677.3 million in the same period last year. Our year-over-year top line growth was driven by the inclusion of Supreme, which contributed 9% to net sales in the quarter. This growth was partially offset by a 3% decrease in our Legacy MasterBrand business due to lower net ASP from the anticipated impact of normal seasonal promotion activity on price and product mix. Volume and foreign exchange were roughly flat compared to the same period last year.

Gross profit was \$238 million in the third quarter compared to \$237.5 million in the same period last year. Gross profit margin was 33.1% compared to 35.1% in the third quarter of last year, driven primarily by lower net ASP product mix, personnel and freight inflation, and two discrete items in the prior year period, attributable to medical insurance rebates and insurance proceeds related to tornado damage sustained at our Jackson, Georgia facility that did not repeat. We also recorded a \$2.2 million purchase accounting inventory adjustment as required by GAAP, under cost of products sold in the quarter. These gross margin headwinds were partially offset by additional cost savings from our strategic initiatives and continuous improvement efforts and lower variable compensation compared to the prior year.

As a reminder, we expect the benefits of our previously announced price actions will start to take effect in the fourth quarter. This is reflected in our current guidance, which I will speak to in a moment.

Selling, General and Administrative expenses were \$166.3 million, an 18.5% increase compared to the same period last year, primarily driven by \$15 million of acquisition-related costs, \$12.1 million of incremental SG&A from Supreme and personnel and distribution-related inflation, partially offset by lower variable compensation expense.

Net income was \$29.1 million in the third quarter, a 51.3% decrease compared to \$59.7 million in the same period last year. This decline was primarily driven by acquisition-related costs, the previously discussed gross margin performance, restructuring charges and higher interest and amortization expense, partially offset by lower variable compensation and positive net income contribution from Supreme. Income tax expense was \$10.3 million representing a 26.1% effective tax rate compared to \$18.2 million or 23.4% effective tax rate in the third quarter of 2023. The higher rate relates to nondeductible expenses from the Supreme acquisition in 2024 and favorable state and local income tax items and the mix of earnings in different jurisdictions in 2023.

Diluted earnings per share were \$0.22 in the third quarter of 2024 based on 130.8 million diluted shares outstanding, a decrease from diluted earnings per share of \$0.46 in the third quarter of last year based on 130.3 million diluted shares outstanding. Adjusted diluted earnings per share were \$0.40 compared to \$0.49 in the prior year quarter. Adjusted EBITDA was \$104.5 million compared to \$109.8 million in the same period last year, with both the legacy MasterBrand and Supreme businesses performing as expected. Adjusted EBITDA margin contracted 160 basis points to 14.6% compared to 16.2% in the comparable period of the prior year driven primarily by the decrease in our gross profit margin as discussed earlier.

Turning to the balance sheet. Net debt at quarter end was \$953.9 million, resulting in a trailing 12-month net debt to adjusted EBITDA leverage ratio of 2.5x at the end of the third quarter, up from 1.5x in the third quarter of 2023. On a pro forma basis, the trailing 12-month net debt to adjusted EBITDA leverage ratio was 2.3x, which includes a full year of Supreme adjusted EBITDA. These ratios were in line with our expectations. Total liquidity was \$458.8 million at quarter end with \$350.4 million available under our revolving credit facility and \$108.4 million in cash. We continue to anticipate lowering our net leverage to less than 2x within 2 years of the Supreme transaction date, assuming no additional M&A activity. Operating cash flow was \$176.9 million for the 39 weeks ended September 29, 2024, compared to \$336.5 million in the comparable period last year, in line with our expectations.

As a reminder, 2023 reflected a planned nonrecurring release of our 2022 strategic inventory build to address various supply chain constraints at that time. The impact of this inventory release, mass incremental working capital improvements made in 2024 and our shared services ability to collect and pay invoices and negotiate improved terms, which again benefited both our days payable outstanding and our days sales outstanding year-over-year.

Capital expenditures for the 39 weeks ended September 29, 2024, were \$34.6 million compared to \$21.4 million in the prior year period. The year-over-year increase relates primarily to timing of projects. Free cash flow was \$142.3 million for the 39 weeks ended September 29, 2024, compared to \$315.1 million in the comparable period last year. Similar to operating cash flow, the year-over-year decline was primarily due to the planned inventory reduction from our 2022 strategic build, partially offset by working capital improvements both discussed earlier.

Given our primary capital allocation priorities are investing in the business and reducing our net leverage, we did not repurchase any additional shares of our common stock in the third quarter. This leaves our total share repurchases unchanged year-to-date at 371,000 shares and \$21.5 million left under our existing repurchase authorization.

Turning to our outlook. As Dave mentioned, end market demand is playing out as we anticipated, and we still expect our full year 2024 end market demand to be down low single digits year-over-year as stated last quarter. Despite these soft conditions, we expect to benefit from our past and current strategic initiatives and investments for growth as well as our previously announced pricing actions. This gives us confidence in our ability to outperform the underlying market in the fourth quarter and deliver our anticipated organic full year net sales outlook of low single-digit declines.

As stated last quarter, we expect our quarterly net sales to be relatively consistent across the third and fourth quarter, a departure from normal seasonality. Trade downs and promotional activity are anticipated to continue at a similar pace but we expect the impact to moderate from a year-over-year perspective as we continue to lap the onset of these in 2023. Additionally, we expect fourth quarter net sales to benefit from recently implemented price actions. We also anticipate the traction we're getting with new products and channel-specific offerings will allow the fourth quarter to outperform normal seasonality in what is typically a lower quarter within the year.

We anticipate Supreme and our integration efforts to continue to perform in line with our expectations in the fourth quarter, contributing mid-single digits to our net sales growth percentage for the full year.

On a combined basis, we are reiterating our full year 2024 net sales outlook, a year-over-year increase of low single digits. We are also reiterating our expected adjusted EBITDA range of \$385 million to \$405 million and related adjusted EBITDA margins of 14% to 14.5%, flat year-over-year to slightly up compared to full year 2023. Our expected interest expense remains unchanged at approximately \$73 million to \$76 million. Similarly, our anticipated tax rate of 24% to 25% remains consistent with our prior guidance. We continue to expect our full year adjusted diluted earnings per share to be in the range of \$1.50 to \$1.62, which includes

the favorable impact of Supreme. It's worth noting again that absent the exclusion for amortization, the Supreme acquisition would still be accretive to adjusted diluted earnings per share in fiscal year 2024.

We are raising and tightening our range for capital expenditures from \$65 million to \$75 million to a range of \$80 million to \$85 million, inclusive of onetime integration CapEx of approximately \$9 million driven by the timing of projects and the availability of certain equipment. This combined investment at the midpoint remains modest at approximately 1.5x depreciation, though slightly above our stated long-term goal of 1.3x. Despite our revised capital investment range, we continue to expect free cash flow to be in excess of net income in 2024, which includes the impact of Supreme.

Now I'd like to turn the call back to Dave.

R. David Banyard
CEO, President & Director

Thank you, Andi. While the end markets remained happy at this time, we're pleased with our financial and operational performance this year. This organization has come a long way since I joined in 2019. Our ability to execute in this environment, while investing in the business for near and long-term growth is something I'm extremely proud of. Our continued focus on our stated strategy, investments for growth and the Supreme acquisition are positioning us to not only participate in the eventual market recovery to meet our goal to outperform the market over the long term. As always, we appreciate your support and look forward to updating you on future calls.

Now with that, I'll open up the call to Q&A.

Question and Answer

Operator

Thank you. [Operator Instructions] Our first question comes from Garik Shmois with Loop Capital Markets.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Nice quarter. I was hoping you could go into some more color on your view that you can grow volumes and new construction despite the air pocket you're anticipating and just the visibility you have on the volume side there.

R. David Banyard

CEO, President & Director

Yes. Thanks, Garik. Well, first off, I will say the market in new construction is still growing and we're seeing that coming into the fourth quarter as well as what we saw in the third quarter. So even though last year in the fourth quarter was really the beginning of the ramp up to the current run rate that they're running. I think we're still seeing some growth. And really with the air pocket did, and it was kind of a July time frame. If you do the math, it wasn't huge, but it was there. And so I think that you have a combination of a little bit of a normal seasonal slowdown this time of the year, you have that air pocket. It just gives us pause to say this could -- there could be an air pocket on the other side of it when they get closer to the completion, which is when we go into it.

On the flip side of that, we have won a lot of really good new business in the single-family new construction part of our business. And that -- those wins occurred earlier in the year, it takes some time to actually get to the point where you're installing the cabinets, and we think that's enough to kind of cover us through this. So we expect though it will be a little muted compared to prior quarters in terms of the year-over-year growth. We still see growth for our business in that area in the fourth quarter.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. That makes sense. On the pricing piece, just the softness in the quarter, it seems like it's pretty consistent with what you saw in 2Q. So I just kind of wanted to get a little bit more color just sequentially, if there's been any change in the pricing trend and how much of the down 3% was trade down the mix versus like-for-like?

R. David Banyard

CEO, President & Director

Yes. It's been very similar to what we've been experiencing all year. I think I would say the characteristic is it hits more in the pricing and promotion side, hits a bit more in the repair and remodel portion of our business. The trade down is more of an effect that you see in new construction. And I think in the new construction side, we're getting close to annualizing that effect. So again, builders are looking for lower costs to put into the houses. The mortgage rate hasn't really stabilized at a lower rate. So they're continuing to buy down and they're looking for ways to decrease the cost of the house. And so we're continuing to see that.

I think if I was to dial back a year ago or more, I'd say, maybe we'd be out of that at this point, but we're not. I think the Fed rate cuts are coming, which is good. That will help. It's just going to take some time for that to work itself into the mortgage rate. And I think, frankly, some of the election activity you're seeing today is going to help at least clarify for the bond market, what might happen in the future, maybe or maybe not, I don't know. But I think that's going to hopefully help ease some of the pressure on the rates on the 10-year and that will hopefully get mortgage rates a bit more stabilized. So that's on that side.

I think in the repair and remodel market, it's very competitive right now. It's just how the market is. There's not a ton of activity. And so you just have to be nimble with your pricing. But by the same token, we are seeing here in the fourth quarter, the effects of the price increase that we've had pretty much across the board. Our competitors have followed us on that. So I think this is general feeling in the market that price is there, the volume is not really changing trajectory in the near term at all. So it's -- I think we're seeing the benefits of that here so far in the fourth quarter.

Andrea H. Simon

Executive VP & CFO

Yes, we're seeing in the fourth quarter that price and inflation kind of lay that would correct itself in Q4.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. Just on the commercial synergies view, you discussed a little bit in the prepared remarks. Just hoping you can go into a little bit more color as to what your plans are there.

R. David Banyard

CEO, President & Director

Yes. First part is to get the sales team organized. You're taking 2 organizations and bringing them together. That takes some time. Next step is to identify the kind of products that you plan to spread across the combined sales force. And we are done with that portion of it. And then the next step is getting out into the dealer network and really there's a lot of training that has to go on when you're bringing on a new line. And so we're in the process of doing that now. So I wouldn't anticipate -- partly why we don't really talk about those commercial synergies, a, in our deal thesis but also in the results because it does take some time for us to bring our entire commercial network up to speed. You're learning a whole new product line in some cases, and so we're in the process of doing that right now.

And as that comes to completion, that's when you would expect those dealers to start becoming active and selling those product lines. So we're in the middle of that, let's say, middle innings of that. But the progress has been great. The team's really rallied together well, which is frankly hard to do. It's 2 different organizations who used to compete against each other and now we're together. And my hats off to that entire team for how they're going about their work and how excited they are, and that's exciting for us.

So more to come on that, Garik. I'd say 2025 will be a time where we can really talk with more specificity about the what and how much. But from our estimates of where we think we can go with this, we're off to a great start.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. Sounds good. Best of luck.

Operator

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

Adam Michael Baumgarten

Zelman & Associates LLC

Just on the ASP, looks like it was down low single digits. I guess if we look at the 4Q just given the price increases and maybe some less severe mix headwinds, do you think that could get closer to flat on a year-over-year basis in 4Q?

R. David Banyard

CEO, President & Director

Yes. I think if you -- it's -- I'd say yes, but it's hard to say with specificity at this point. I mean, I think we're coming in. I mean if you add in the Supreme, we're anticipating being up in the fourth quarter. But I think it's a little too early to tell. I think our plans have it somewhere around that.

Adam Michael Baumgarten

Zelman & Associates LLC

Okay. Got it. And then just on the promotional environment. You cited that as a part of some of the ASP pressure on a year-over-year basis. Would you deem promotions as kind of normal? Or did they kind of accelerate because I have the sense that they were kind of normal over the last year or so. Did you see a pickup? Or is it just the timing thing this quarter?

R. David Banyard

CEO, President & Director

Yes. I think it's pretty normal. There's -- once in a while, you'll see something that's a bit more outsized, but I think it's fairly normal. In both the retailer and the dealer side, it's -- you're seeing more -- or seeing normal promotional activity. What may be different is the amount of volume you're getting out of certain promotions, so it may be a little biased that way, but it's on the margin, I wouldn't call it material.

Adam Michael Baumgarten
Zelman & Associates LLC

Okay. Got it. And then just maybe some more color on the homebuilder wins that you talked about that should help support some growth in new construction in the fourth quarter. Were they large national builders, regionals? Maybe just a bit more detail there.

R. David Banyard
CEO, President & Director

Yes, predominantly in the large top 25 and some in the next 75, we look at the top 100 as relevant opportunities for us but predominantly in the top 25. And then the timing of when those projects kick off is part of why we made the comments we did in our prepared remarks is just when you -- it's indicative of the choppiness across our market right now where you see these little dips and how that plays out. So I mean, the wins are there, but we don't get the revenue until they actually start or get close to completing the project, frankly.

So it's a -- it's always a little bit -- the timing is never crystal clear until they start building the neighborhood. So it's -- we know they're there. It's -- we've been seeing them come in through the third quarter, but it's just a question of the activity level that the builders will continue to have. I anticipate generally speaking that builders will continue at the pace that they've been going. I don't see anything that tells me that there's a larger deviation from that, either up or down. But we'll learn more as we go through the rest of this quarter and into next year.

Operator

Our next question comes from Tom Mahoney with Cleveland Research.

Thomas McNally Mahoney
Cleveland Research Company LLC

I wanted to ask about inventory and you guys have had well, with 2 years as an independent company, can you just give us a little bit of rightsizing on how you expect inventory to trend in a typical year? And if the build here sequentially in the third quarter is typical of what you see or if there's some other moving pieces that we should consider there as it rolls off for the fourth quarter?

R. David Banyard
CEO, President & Director

Yes. And Tom, just to clarify, I assume you're talking about our inventory -- internal inventory?

Thomas McNally Mahoney
Cleveland Research Company LLC

Correct, yes.

R. David Banyard
CEO, President & Director

Okay. Yes, it's -- Tom, I wish I could tell you that we've had a normal year in the past 3 years, we frankly haven't. If you remember back this summer, there was a strike in the ports, and that facilitated a little bit of inventory to build on our part, ahead of that. We potentially have another issue coming in January with that same topic. So I think -- I don't think we've had a normal inventory year in the last 3. I'd say our normal cadence of inventory is typically that inventory builds in the beginning of the year ahead of busier season throughout the summer months and wanes through the third quarter. So you're highlighting something that is abnormal. But frankly, part of that was we were getting ahead of what was shipping -- potential shipping challenge. Fortunately, it's only a week or so, but it could have been a lot worse. And so we were trying to get a little bit ahead of that.

So we're bleeding that off now, but then we got to think about coming back into the new year, plus you have potential other port issues, plus you have Lunar New Year. So there's -- it's been a little bit of a wild ride for our material team, but they're managing through it. I think we've done a nice job of kind of controlling those variables as best we can.

Andrea H. Simon
Executive VP & CFO

Keep in mind, when you're just looking at the balance sheet year-on-year, the majority of that increase is the addition of Supreme inventory and then the purchase accounting as well. So that's a lot of the increase that you're seeing.

Thomas McNally Mahoney

Cleveland Research Company LLC

Yes. Good call out, it makes sense. And then when you think about some of the storms that have occurred over the last 30 to 45 days, are there any impacts to consider whether from a supply or supply chain perspective or from a potential demand perspective as you guys think about how the business is acting historically around these?

R. David Banyard

CEO, President & Director

Yes. supply, no. Demand, I think it's -- we didn't call it out because we don't know that it's material in the long run for the business. It makes a little bit of a choppiness in things like new construction for a few weeks. But we found those regions to be back in business fairly quickly, particularly given the magnitude of the damage along the coast line there in Florida. It does present a situation where you do have large number of homes that need immediate remodeling, but we tend to not see that come in a big wave. Insurance claims take a while, I think.

And so we don't necessarily anticipate that as any kind of material movement in the business. And our teams that are based in Florida, weathered the storm fine, we're not on the coasts. So generally, it does -- we pay a lot of attention to it. We do want to make sure we take care of our associates that live there and work there. So we do pay a lot of attention to it, but I don't think it's something to put on a headline for us.

Operator

There are no further questions at this time. I would now like to turn the floor back over to Farand Pawlak for closing comments.

Farand Pawlak

Vice President of Investor Relations & External Communications

Thank you, operator, and thank you, everyone, for joining us today. We appreciate your interest and support and look forward to speaking with you on future calls, which includes today's call.

Operator

You may disconnect your lines at this time. Thank you for your participation.

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