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Market Intelligence

# **HNI Corporation** NYSE:HNI

## *Earnings Call*

*Thursday, July 25, 2024 4:00 PM GMT*

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# Call Participants

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## EXECUTIVES

**Jeffrey D. Lorenger**

*Chairman of the Board, President  
& CEO*

**Marshall H. Bridges**

*Senior VP & CFO*

**Matthew Schon McCall**

*Vice President of Investor  
Relations & Corporate  
Development*

## ANALYSTS

**Budd Bugatch**

*Water Tower Research LLC*

**Gregory John Burns**

*Sidoti & Company, LLC*

**Reuben Garner**

*The Benchmark Company, LLC,  
Research Division*

**Steven Ramsey**

*Thompson Research Group, LLC*

# Presentation

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## Operator

Thank you for standing by. My name is Christina, and I will be your conference operator today. At this time, I would like to welcome everyone to the HNI Corporation Second Quarter Results Conference Call. [Operator Instructions]

Mr. McCall, you may begin your conference.

## Matthew Schon McCall

*Vice President of Investor Relations & Corporate Development*

Good morning. My name is Matt McCall. I'm Vice President, Investor Relations and Corporate Development for HNI Corporation. Thank you for joining us to discuss our second quarter fiscal 2024 results. With me today are Jeff Lorenger, Chairman, President and CEO; and Marshall Bridges, Senior Vice President and CFO. Copies of our financial news release and non-GAAP reconciliations are posted on our website. Statements made during this call that are not strictly historical facts are forward-looking statements, which are subject to known and unknown risk.

Actual results could differ materially. The financial news release posted on our website includes additional factors that could affect actual results. Corporation assumes no obligation to update any forward-looking statements made during the call.

I'm now pleased to turn the call over to Jeff Lorenger. Jeff?

## Jeffrey D. Lorenger

*Chairman of the Board, President & CEO*

Good morning, and thank you for joining us. Our members once again demonstrated the organization's ability to deliver strong profit growth in the second quarter. Non-GAAP EPS of \$0.79 exceeded our internal expectations and was 44% higher than the prior year period. It was also a record result for the second quarter.

In Workplace Furnishings, the combination of our profit transformation initiatives and the benefits from the Kimball International acquisition continue to deliver strong earnings growth with segment non-GAAP operating profit growing 67% year-over-year.

In Residential Building Products, we drove profit growth and margin expansion despite ongoing housing market challenges. Non-GAAP operating profit increased 17% year-over-year, demonstrating the strength of our business model.

Overall, our strategies, our dedicated member owners, our customer-first mindset and our proven ability to manage through all parts of the economic cycle helped us drive excellent results in the first half of 2024.

Looking forward, we are increasingly optimistic about the future and the opportunities that we see in both segments of the business. On the call today, I will highlight 5 key points that underscore our positive outlook. First, Workplace Furnishings operating margin reached a multi-decade high for the second quarter, reflecting our continued commitment to improving the profitability in this segment.

Second, our combination with Kimball International is generating strong results. Third, our Residential Building Products segment posted profit growth and margin expansion despite ongoing housing-related softness. Fourth, we expect revenue growth in both segments in the second half of the year. And fifth, beyond 2024, we have elevated earnings growth visibility.

Following those highlights, Marshall will review our outlook. I will conclude with some general closing comments before we open the call to your questions.

Moving to the first point. Workplace Furnishings operating margin reached a multi-decade high for the second quarter. Workplace Furnishings non-GAAP operating margin expanded 370 basis points year-over-year to 11.9%, the second quarter level last seen in the late 1990s. This was also the ninth straight quarter of year-over-year operating margin improvement in this segment. The 370 basis points of margin expansion was on top of last year's strong results. Over the last 2 years, operating profit margin in Workplace is up nearly 9 percentage points.

This year's second quarter margin improvement was primarily driven by strong productivity gains. Driving productivity is a key part of our Workplace Furnishings' profit transformation plan. Our operations continue to become more efficient across the board, including significant gains in labor and material efficiency. And there's more to come as we have line of sight to additional margin expansion in the back half of 2024 and beyond.

Recall, our profit transformation plan does not require demand improvement and our recent margin expansion has been achieved without cyclical top line support. However, as I will discuss later, we believe the market is slowly improving and will add to our future profit growth.

Moving to my second point. Our combination with Kimball International is generating strong results. KII continues to be highly accretive and was a major contributor to our record second quarter profit. KII added an estimated \$0.15 to our non-GAAP EPS in the second quarter while generating an operating margin of 13.3%. And revenue and accretion surpassed the expectations we shared with you last quarter.

Kimball International is providing us with good growth opportunities and strengthening our market positions. We remain very encouraged by the complementary nature and attractive post-pandemic positioning of KII's workplace offering.

Additionally, KII's health care and hospitality businesses are well positioned within attractive, expanding segments and both generating growth. As we announced in May, we now have line of sight to \$50 million of cost synergies from the combination. I will talk more about this later, but those synergies will continue to fuel profit growth and margin expansion over the next couple of years and, again, do not require demand growth.

Our confidence in the combination of strategic and financial benefits continues to prove out and accelerate.

Moving to my third point. Residential Building Products posted profit growth and margin expansion despite ongoing housing-related weakness. Our actions to drive productivity and lower cost expanded operating margin to 13.8%. This was up 260 basis points year-over-year despite overall housing market pressures.

Looking forward, we remain bullish about the intermediate to long-term dynamics for this business. And we expect revenue growth to return in the second half of 2024.

That leads me to my fourth topic. We expect revenue growth in both segments in the second half. I will start with some comments on expected back half Workplace Furnishings demand. Then I will follow those with some detail on second half Residential Building Products revenue.

We continue to see signs the Workplace Furnishings market is slowly improving. [indiscernible] activities remain elevated, but the translation to orders is continuing to take longer. For the second half of 2024, we expect Workplace Furnishings revenue to increase at a low single-digit rate year-over-year. That outlook is based on the supportive data points in SMB and KII and with contract.

Our SME business continues to generate growth. SMB orders grew 2% year-over-year in the second quarter on top of a 4% increase in the same period of 2023. This segment of our business continues to benefit from healthy dynamics, including population shifts to secondary and tertiary geographies and relatively higher office usage in those markets.

Kimball International continues to perform well. KII orders grew over 3% year-over-year in the second quarter. As I mentioned earlier, the combination with KII has strengthened our Workplace Furnishings business and given us access to new growth opportunities with strong market fundamentals, including health care and hospitality.

Additionally, KII's product portfolio is well positioned to support the hybrid work environment. As companies reconfigure their spaces to better support hybrid, KII will benefit.

In our contract business, we see growth on the horizon. Our preorder metrics remained elevated, an indication of future growth. Our year-to-date quoting activity, contract sales funnel and business during design days to our experience center in Chicago, all are up double digits year-over-year.

Looking out, we believe we are particularly well positioned to benefit as the Workplace Furnishings market continues to improve. We have unmatched products and pricing breadth and depth. We have products that work for customers ranging from small businesses to the largest multinationals. Our brands are distributed widely across geographies, from tertiary markets to the top MSAs, and we can address the needs of all workplaces, schools, health care facilities and hotels. We have adapted our product offering in anticipation of the new ways people are working and will work.

Today, most knowledge worker tasks are supported by 6 activities, focus, mentorship, innovation, collaboration, socialization and learning. And each of these tasks calls for unique furnishing applications. At design days in June, we introduced the intentional office, a philosophical approach to addressing the needs of today's office by designing environments that support each of these 6 activities. This approach to the market, our coverage of the market and our unwavering focus on the customer have us well positioned to benefit from an improving demand environment.

Let's shift to second half Residential Building Products demand. Overall demand remains choppy, but the trends are improving. For the second half, we expect Residential Building Products revenue to grow at a mid-single-digit pace versus the prior year period. This outlook is consistent with our improving order trends. When excluding changes we implemented to our early order program, normalized second quarter orders grew 4% year-over-year. This is the first quarter of order growth since mid-2022 when the housing correction started.

Looking forward, we expect demand to improve from here. The supply-demand fundamentals for the housing market remains strong, although recent housing inventories have kicked up, single-family housing remains massively undersupplied while demographics support additional demand growth.

In addition to the improving market dynamics, we continue to invest in unique growth opportunities. These include new product innovations such as electric fireplaces, average to better connect with builders, homeowners and homebuyers, online capabilities and the expansion of our wholly owned installing distributor footprint.

Summarizing my fourth point, we are expecting top line improvement in the second half in both Workplace Furnishings and Residential Building Products. That, along with continued margin expansion in both segments, will drive record EPS in 2024.

Moving to my fifth and final point. We have elevated profit growth visibility through 2026. We expect KII synergies to total \$50 million. This is double the estimate we provided when the acquisition closed. Additionally, the ramp-up of our facility in Mexico is expected to contribute an incremental \$20 million to \$25 million to the bottom line.

Both initiatives are currently underway and provide strong visibility to future earnings growth. Of the \$70 million to \$75 million in total benefit, an estimated \$45 million to \$50 million will positively impact the 2025 to 2026 period. This is equal to approximately \$0.70 of EPS or more than 20% growth from the current year consensus estimate.

As we have communicated for several quarters, we continue to grow profit without volume growth due to initiatives like these. Volume growth will only enhance our profitability.

I will now turn the call over to Marshall to discuss our outlook for 2024.

**Marshall H. Bridges**  
*Senior VP & CFO*

Thanks, Jeff. I'll start by quickly summarizing the outlook for demand and profit that Jeff just covered. Beginning with demand. Second half revenue in Workplace Furnishings is expected to increase at a low single-digit rate year-over-year. I'll note that our new outlook represents a reduction from what we provided in our April earnings release, that release implied Workplace Furnishings would grow at a mid-single-digit rate in the second half.

The change primarily reflects timing in the contract space. As Jeff mentioned, we continue to see elevated preorder metrics and a healthy sales funnel, both of which point to future growth.

However, our contract business has a heavy mix of projects, the timing of when those projects ship and [ stop ] can cause variation in our growth rates. This type of variation is not new. We've seen timing impact of the contract business in the past and the BIFMA order trends have been volatile this year as well.

Moving to Residential Building Products. We expect second half revenue to grow at a mid-single-digit pace versus the same period in 2023. I'd also like to note that year-over-year trends in both segments are expected to improve from the third quarter to the fourth, which means that most of the growth that we are expecting in the second half is going to be in the fourth quarter.

Shifting to our profit outlook. We expect margin expansion in both Workplace Furnishings and Residential Building Products to drive continued earnings growth in the second half.

Our expectations for 2024 profit have increased compared with the outlook we provided in April. Specifically, we expect that our outperformance in the second quarter will more than offset the impact from lower second half top line growth in Workplace Furnishings.

I'll wrap up with a few comments on our balance sheet. We maintained our strong financial position. Gross leverage at the end of the quarter was 1.5x as calculated in accordance with our debt agreements. That ratio is down from 1.9x in the first quarter due to higher profit and modestly lower debt.

In addition, during the quarter, we accelerated our share buyback activity with more than \$10 million of repurchases, the combination of our strong balance sheet and consistent cash flow generation provides a high degree of financial flexibility and capacity for capital deployment. Our current priorities for cash deployment remain reinvesting in the business, funding dividends, pursuing buybacks and M&A opportunities.

I'll now turn the call back over to Jeff.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Thanks, Marshall. We remain committed to expanding margins in Workplace Furnishings and driving long-term revenue growth in Residential Building Products. We had an excellent start to 2024, delivering record first half earnings and we anticipate record EPS for the full year 2024. Beyond this year, we are positioned for continued success.

In summary, we have elevated earnings growth visibility, broad and diverse product and market coverage in Workplace Furnishings, a market-leading position in Residential Building Products and a strong balance sheet and the ability to drive continued free cash flow.

I want to thank all of our HNI members for their continued hard work and dedication to deliver these results. We will now open the call to your questions.

## Question and Answer

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### Operator

[Operator Instructions]

Your first question comes from the line of Budd Bugatch from Water Tower Research.

### Budd Bugatch

*Water Tower Research LLC*

Jeff, Marshall, Matt, congratulations to you and your team on the strong performance in the quarter and on the guidance as well. I would like, I think, to go right to talk a little bit about revenues. I think that's the major change that you're expecting from what you've been doing. Talk a little bit more in color of what you're seeing in each of the segments, if you will. I say you talked a little bit about a longer cycle in contract. And what's driving that?

And the relationship to the overall economy, which -- if you look at some of the other reports this morning, maybe showing a little bit of a kind of a weakness in certainly some of the hard areas like cars and automobiles.

### Jeffrey D. Lorenger

*Chairman of the Board, President & CEO*

Yes, Budd, that's -- look, we see a lot of activity that you talked about the cycle, we've been through this before. You've been around, you've seen this, and it does feel like customers are active. I mean, look, we've been kind of -- the space itself has been kind of bouncing on the bottom for a bit here. So I think what we see is that people interested in getting -- reconfiguring, looking at their office space, trying to figure out what they're going to do.

And what I would say is, strategically, a lot of people are starting to figure out that they have a position, a strategic position on what it needs to look like in the post-pandemic work model, but a lot of companies just haven't yet reconfigured their offices to support, for instance, their particular hybrid model.

And -- but we do believe we see reality is sunk in and a lot of companies are saying, yes, we've now studied this long enough, and we need to move out on this. And so even though it's elongating, there's still a little bit of hand ringing about exactly how to execute. There's a lot of interest in that in doing so, and that's what we're seeing, that's what we're feeling, that's what our customers are saying.

### Budd Bugatch

*Water Tower Research LLC*

Well, we've heard the phrase top of the funnel in a couple of different calls. And has the top of the funnel translated so far and to reflect -- requests for proposals or requests RFQs? And are we seeing competitive bid situations that are increased?

### Marshall H. Bridges

*Senior VP & CFO*

Yes. But let me just maybe take a step back. So we're expecting Workplace Furnishings to be up low single digits in the back half and that's really led by the SMB business and KII. Those are performing above average, and then the contract business is performing below that number. So your question is sort of aimed at the contract business.

I would say that the contract business, as Jeff mentioned in his prepared comments, the preorder metrics are very healthy. We're seeing double-digit increases in the funnel. We're seeing double-digit increases in quoting. Our design days visits were very strong. So all indications that, as Jeff said, the people are looking to reconfigure their office and make some moves.

However, it is being elongated, as you said, and we think that, that revenue is pushed out to subsequent quarters. So I think what we're seeing here is that the shorter cycle businesses continue to do a little better than the longer cycle business, but we're encouraged by all of it.

**Budd Bugatch**

*Water Tower Research LLC*

That's really very helpful, Marshall. And in RVP, you're talking about, again, some growth there, and that's been a segment that's been under some pressure with higher mortgage rates and lower housing activity more recently. What are you seeing that's giving you the comfort there?

Your business is growing. You've got a large market share in the hearth side. So is it really from the market share perspective or some of the initiatives you've had, like, I think Jeff mentioned online and electric furnaces, are they really what's driving the better expectations?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. If you look at what happened in the second quarter from an order perspective in Residential Building Products, we showed 4% growth in orders on a normalized basis. And what really drove that was the remodel/retrofit side of things. New construction was roughly flat. So the turn of remodel/retrofit is very encouraging to us. That's something that's been soft for well over a year, really going back to 2022.

Now -- that's a pretty seasonally low order period for remodel/retrofit, but we did see growth on a low base. As we look forward, we think we're going to see growth in both new construction and remodel/retrofit and be up in that mid-single-digit rate in the back half.

**Budd Bugatch**

*Water Tower Research LLC*

That's pretty exciting because as you say, on one of the issues and pushbacks that you and I have discussed over the last number of years is the issue of incidents in new housing for fireplaces. And I know that there's a psychographic [indiscernible] of fireplaces, but some of the numbers haven't shown that. Are we seeing any improvement in incidents in single-family housing from a standpoint of fireplaces as part of the new homes?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. It's hard to measure that. But what I would say is that our new construction business being flat, that's maybe a little bit disconnected from what we've seen in new construction of single-family homes. And I think that reflects the affordability pressures, the mix of housing pressures that we see.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes. I think we've got a combination right now, but it's not -- it's kind of -- it's flattened out a bit on the incident rate. We've got a combination of affordability, spec homes and construction lags that are kind of all meeting up at the same time period. We think that will start to unlock. And as you say, we've got a lot of investments pointed at this space as well relative to educate homebuyers and homebuilders, remodelers. The electric units are taking off a bit.

And so as interest rates, we see some relief there, we believe we'll be able to gear up the growth again. And like Marshall said, the turn in remodel is very encouraging. That's the first in both our businesses, but we've been -- we've kind of been riding a little bit on the lower side. And so as we said in the prepared remarks, I mean, we believe we can continue to expand our margins without growth. And now that we're starting to see some signs of growth, that really -- that's just add to what we've got going.

**Budd Bugatch**

*Water Tower Research LLC*



No doubt. I mean the performance of the company and the performance of your team has been superb and remarkable, and you're already congratulated on that. And I look forward to seeing the results as they come forward for the balance of this year and into the upcoming years.

**Operator**

Your next question comes from the line of Greg Burns from Sidoti & Company.

**Gregory John Burns**  
*Sidoti & Company, LLC*

When we look at the profit visibility and some of the numbers you have around cost savings, the \$45 million to \$50 million that you're projecting for 2025 and '26, is that incremental? Because I think some of the KII synergies, I'm assuming, have been realized. I just want to understand the buckets and if that's all incremental? Or have you already realized the piece of that and the total is going to be that over the course of the next 2 years?

**Marshall H. Bridges**  
*Senior VP & CFO*

The \$45 million to \$50 million is all incremental compared to [indiscernible]. Yes, \$45 million to \$50 million is all incremental relative to 2024. So Greg, it's -- you're right and that some of the benefits from those initiatives have been realized. Those 2 initiatives in total are about \$70 million to \$75 million of benefit. So we're -- we've got a little bit of that already realized by about \$25 million of it.

**Gregory John Burns**  
*Sidoti & Company, LLC*

Okay. And I guess that doesn't include your just ongoing annual maybe efficiency or cost initiatives. Do you have a number around that? Like how much that could be on an annual basis?

**Marshall H. Bridges**  
*Senior VP & CFO*

You're right. Certainly, a lot of organizational resources are focused on delivering that \$45 million to \$50 million incremental, but we will still be driving daily, weekly, annual productivity gains. Just to give you some color, we don't necessarily have a forward-looking guidance on that. But if you look back historically, and a couple of years before the pandemic, we were averaging \$10 million, \$11 million of annual productivity gains. So I'd expect that we'd be able to deliver something in that neighborhood.

**Gregory John Burns**  
*Sidoti & Company, LLC*

Okay. And then really strong performance on the workplace margins getting to that double-digit range, I guess, faster than we expected. Do you have a target on where you think that segment can operate on a recurring basis or an ongoing normalized basis?

**Jeffrey D. Lorenger**  
*Chairman of the Board, President & CEO*

Yes. It's good question, Greg, and we have talked about that a lot. I will point out that our operating margin in this segment is now 10% when you look back the last 4 quarters, and I would also point out there's nothing abnormal in those -- in that time period. So over time, as a reference point, I would just kind of how it gives you -- philosophically, how we think.

In 2009, our operating margin in Residential Building Products was in the low single digits. Now it's consistently in the high teens. So I would tell you, I don't know the workplace to be in the high teens is in the mix, but I can confidently say we're not satisfied with 10%. And so we will continue to work on that and push that -- push the margin.

**Operator**

Your next question comes from the line of Reuben Garner from the Benchmark Company.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

So just a follow-up on the workplace top line. Marshall, I think you referenced, I believe it was quoting activity and the funnel being up double digits. I think that's the first time I've heard you guys sort of referenced those 2 and put any numbers around it. Is that a pretty clear acceleration in the second quarter? Were you seeing growth? I'm just trying to gauge: one, is that directly specifically at the contract piece of workplace; and two, how long has this been going on and how close are we to where those kind of transition to the actual order growth side?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. Those metrics are a mix of contract and other parts of the business as well, although maybe a little more weighted toward contract. What I'd tell you, Reuben, is they've been elevated for some time. We've seen this cycle where things take longer to continue. I think we're starting to see that slightly improve. I think it's consistent with our outlook that things are slowly turning.

So we're not necessarily saying that we're got a big inflection point here, but we are seeing encouraging signs that we're going to see growth looking forward. So if you look at where the growth is coming from, as I mentioned earlier, we're expecting to be up in the low single digits in the second half. That's really driven by the fourth quarter. We're expecting the third quarter to be nearly flat. And it's really being driven by strength in SMB and KII, and the contract side of things is below average right now, but we're very excited about the growth we're seeing on the horizon in contract.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

Okay. And then on the margin side, you -- if my math is right, you've got somewhere in the range of 350, maybe 400 -- maybe 400 basis points of margin sort of within your control in the office or workplace segment over the next few years. I guess my question is you -- Jeff, you mentioned in the last 4 quarters, you're at 10%.

Obviously, this quarter, in particular, you were at 12%. What's kind of the baseline that we're sort of adding those incremental savings to? In other words, was there anything seasonality-wise or mix-wise or anything else in the second quarter that makes that number not the right one to build off of?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes, I think, Reuben, there's nothing unusual, but we do have seasonality. So I think if you look at the last 4 quarters, Jeff mentioned that we've been at 10%, that's probably a good number to start from. But we are talking about \$45 million to \$50 million incremental from 2024. So I think that's maybe a good base to move from.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

Okay. And then last one for me. I don't want to beat a dead horse, but I just want to clarify on the Residential Building Products side. We've heard in recent months -- the past couple few months, some areas are seeing a little bit of a slowdown from maybe what was expected earlier in the year and your outlook seems to be largely unchanged, and I recognize that you have maybe easier comps because of some dynamics going on last year. But have you seen any material change in demand or conversations with your customers that gives you any kind of concern about where things are headed in the second half?

**Marshall H. Bridges**

*Senior VP & CFO*

Even though our outlook is mostly unchanged, there are some moving parts in there. I think the new construction side has been a little bit slower and remodel/retrofit has been a little bit more encouraging. If you look at the second quarter, Reuben, we expect it to be down to low single digits, and we were down a little more than that.

And that really reflected some softness in new construction that was partially offset by less decline than expected remodel/retrofits. I think our outlook in aggregate is more or less unchanged, but there's some moving parts there that may be more consistent with what you're hearing. [ And that reminds ] remodel/retrofit for us is pretty noisy year-over-year. So it's difficult to get a good trend on. I think we're finally starting to get there.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

Okay. I'm going to sneak one more in. The -- how much multifamily exposure do you have within the hearth business because that's been another concern from investors as we work through this record backlog of units under construction, it kind of leads like an air bubble at some point maybe going into '25? Is that a risk for you? Or is that a relatively small business?

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

No, it's relatively small, Reuben. It's relatively small. That's not -- we don't view that as a risk.

**Operator**

And your last question comes from the line of Steven Ramsey from Thompson Research Group.

**Steven Ramsey**

*Thompson Research Group, LLC*

So I'm curious about on workplace with SMB and KII outperforming currently and kind of looks like through the balance of the year. Do those customer groups have better margins than contracts so that looking out a little bit further when contract does come back, is that a negative mix impact to the margin story there?

**Marshall H. Bridges**

*Senior VP & CFO*

Steven, there's not much difference between the margins on an incremental basis. So I don't know that it's a terminus headwind or a big tailwind, probably not something we spend a lot of time on.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes. Plus, Steven, I would just say as contract -- as we talk about, as contract comes back, kind of the way the offices are configured, I think placed our benefit relative to the types of products we can put in there and even the types of products that KII has brought to the table. So I mean we don't really view that as a downside. It's really just about the revenue, and we think the margins will kind of -- as we've talked about, we want to continue to lean into expanding those margins even as contract comes back up.

**Steven Ramsey**

*Thompson Research Group, LLC*

Got you. Okay. And then thinking about workplace margin a little bit more with the new cost structure coming into place over the next 6 months to 2 years, if volumes do grow in 2025 and 2026 in that segment, does that change -- does the new cost structure change the incremental margins you would get over that time frame? I mean, just help us think about what margins could do as -- or if volumes grow?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. That's a good question. Clearly, the change in our efficiency is going to benefit our incremental margins. I mean, in workplace, those would typically run kind of in the mid-30s. So we're probably turning a little bit above that when we come back right now. Now there's a lot of variables that can go into that incremental margin, which probably are equally as big as the recent progress we've made. But on average, that mid-30s number, it was historically a good number, so we'd be a few points above that.

**Steven Ramsey**

*Thompson Research Group, LLC*

Okay. Helpful. And then switching to resi. The M&A pipeline has been a part of the story over the past many years. Can you describe where that resi pipeline is now? And is there a real potential for things getting done second half of this year or early 2025?

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Like we said -- it's a great question, Steven. We're always kind of taking a look out there. And we've also said we're not in any hurry. We kind of let the game come to us. But suffice to say, we're always in the market in that space. So I don't have anything imminent by any means, but we will stay active at least at a strategic level.

**Steven Ramsey**

*Thompson Research Group, LLC*

And then one other thing on resi. On the distribution side of things. You clearly have some owned distribution and then, I guess, sell-through other third-party distributors and the building product landscape for distributors is consolidated. I'm curious how you look at that strategically and if it's presenting any upside or challenges as you adapt to this changing building product distribution landscape?

**Marshall H. Bridges**

*Senior VP & CFO*

Steven, we primarily sell through specialty dealers and installing distributors. So -- not saying that, that overall trend doesn't impact us, but maybe a little less so than some of the other categories. And of course, we do own. About -- 25% of about what we do flows through distribution we own. So that also helps us.

**Operator**

And with no further questions, I'll turn the floor back over to Mr. Lorenger.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Great. Thanks for joining us today, taking the time, and have a good day.

**Operator**

Thank you. This does conclude today's conference call. You may now disconnect. Have a great day.

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