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Masco Corp. (MAS)

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MANAGEMENT DISCUSSION SECTION

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

I will now turn the call over to Robin Zondervan, Vice President, Investor Relations and FP&A. You may begin.

Robin L. Zondervan

Vice President, Investor Relations and FP&A, Masco Corp.

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

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

Our statements today will include our views about our future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. We've described these risks and uncertainties in our risk factors and other disclosures in our Form 10-K and our Form 10-Q that we filed with the Securities and Exchange Commission.

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

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

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

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

Please turn to slide 5. I wanted to start this morning by reflecting on some of our key accomplishments across our businesses, brands and products for 2024.

Beginning with our Plumbing segment, we introduced several innovative new products in the market and entered into new product categories. At Delta Faucet, we're focused on being a leader in water quality and introduced water filtration products for both the sink and shower categories.

At hansgrohe, we continue to increase market share by offering products with premium and customizable designs, and products that are focused on saving energy and water. At Watkins Wellness, we introduced FreshWater IQ, a smart monitoring system that automatically tests the water chemistry in your spa and communicates recommended adjustments to maintain clean, natural feeling water.

Finally, our integration of Sauna360 is ahead of schedule and we are actively launching our branded saunas into our existing Watkins dealer network.

And our Decorative Architectural segment, the strength of our brands continues to resonate with our customers and generate additional share gains. Behr was rated number one in interior paint, number one in exterior paint and number one in exterior stain in a third-party study, demonstrating the strength and exceptional quality of our leading Behr brand.

Our investments in our paint business to continue to expand our services and build upon our successful partnership with The Home Depot have helped drive share gains in both the DIY and PRO paint categories. In our PRO paint category, our annual sales are now over \$900 million, which is an increase of over 70% since 2020. Our products resonate with PRO painters and have enabled us to capitalize on the sizable growth opportunity in the PRO paint market.

Finally, we completed the sale of Kichler Lighting in 2024. We are confident that this transaction to further streamline our portfolio will drive greater value for Masco's shareholders as we focus on the strategic initiatives of our core businesses. I want to thank all our employees for their excellence in execution, their focus on the customer and their continuous improvement mindset that delivered these key accomplishments during the year.

With that, I'll now make some brief comments on our fourth quarter and full year results, and then I'll finish by discussing our outlook for 2025 and provide an update on our margin targets for 2026. Please turn to slide 6.

We wrapped up 2024 with another quarter of solid operating results. In the fourth quarter, our top line decreased 3%, primarily due to the divestiture of Kichler. Excluding this divestiture and the unfavorable impact of currency, sales increased 1%, primarily due to higher volumes in our Decorative segment.

Operating profit increased \$19 million in the quarter due to our continued efforts to drive cost savings and efficiency across our operations. Operating profit margin improved 140 basis points to 15.9%. Our performance in the fourth quarter marked the seventh quarter in a row of year-over-year margin expansion. With our strong execution, our earnings per share for the quarter increased 7% to \$0.89 per share.

Turning to our segments. Plumbing sales decreased 1% in local currency. We saw lower volumes in both trade and retail in North America. While the industry continues to show signs of stabilization, it remains choppy and has not yet pivoted to sustained growth.

International Plumbing grew slightly as we saw growth again this quarter in our business in both Europe and China despite a challenging market environment. Operating profit for the segment was \$200 million and operating margin was 16.8%, an improvement of 40 basis points.

We continued to see the benefits of our focus on productivity, efficiency and cost savings initiatives throughout our Plumbing segment. Additionally, our investments in our leading global brands, innovative products and customer service are producing results, and we will continue to capitalize on these investments.

Turning to our Decorative Architectural segment, sales decreased 6%, primarily due to our divestiture. Overall paint sales were up mid-single digits, including a benefit from inventory timing. Excluding this benefit, overall paint sales were down low single digits, PRO paint sales were up high single digits and DIY paint sales were down mid-single digits. Operating profit for the segment was \$113 million and operating margin was 17.7%, an improvement of 290 basis points.

Now let's review our full year performance. Please turn to slide 7. Masco executed extremely well in 2024, and for the second year in a row, we improved nearly every operating metric for the full year. Gross margin improved 110 basis points to 36.3%. Operating margin expanded 70 basis points to 17.5%. Plumbing margin expanded 100 basis points to 19%. Decorative margin expanded 70 basis points to 18.5%.

Earnings per share grew 6% to \$4.10 per share, up from \$3.86 per share in 2023. We delivered a return on invested capital of 44%, and our strong cash flows, including the proceeds from our divestiture, allowed us to return more than \$1 billion to shareholders in the form of dividends and share repurchases in 2024.

Importantly, we have achieved compound annual earnings per share growth of over 12% over the last five years, delivering on our target of double digit EPS growth through cycles. This growth demonstrates the strength of our brands, service and innovation, and the benefits of a portfolio focused on lower ticket repair and remodel-oriented products.

Turning to slide 8. As we look to the future, we are well-positioned to achieve strong, profitable growth through continued market share gains, margin expansion and disciplined capital deployment. The 2025 estimates we are providing today include the impact from the recently enacted China tariffs, net of mitigation actions, but do not include impacts from any potential future tariffs. We have demonstrated our ability to navigate these types of situations in the past, from COVID to unforeseen supply chain challenges, to previously enacted tariffs. And we are confident that we have the right teams and plans in place to respond quickly to any new tariffs.

Moving to our expectations for 2025, I will begin with the following market assumptions. For global repair and remodel markets, in aggregate, we expect the market to be flat to down low single digits. For the North American

repair and remodel market, we expect the market to be roughly flat. For International markets, we expect the markets, in aggregate, to be down low single digits.

Our expectations for our own sales in 2025 is to be down low single digits. However, if we exclude the unfavorable impacts from our divestiture of Kichler of approximately 2% and currency of approximately 1%, we expect our sales to be roughly flat to up low single digits. Our estimate includes our expectations that we will continue to outperform the market in 2025.

Despite the relatively flat top line assumption, we will continue to expand our margins through disciplined pricing, innovative product introductions, cost savings initiatives and operational efficiencies across our business. We have consistently demonstrated our ability to execute in dynamic times and plan to deliver further operating margin expansion across our business in 2025. We expect Plumbing margins in the range of 19% to 19.5%, and Decorative margins also in the range of 19% to 19.5%, resulting in a Masco operating margin of approximately 18%.

Turning to capital allocation, our strategy remains unchanged. First, we will reinvest in our business to maintain and grow our leadership positions and win in the marketplace. This includes ongoing investments in our growth initiatives to continue to gain share in the domestic plumbing, wholesale channel, International Plumbing and PRO paint. Second, we will continue to maintain a strong investment-grade balance sheet.

Third, we have a targeted dividend payout ratio of 30%. I'm pleased to share that our board approved a 7% increase in our dividend for 2025, which will bring our annual dividend to \$1.24 per share and marks the 12th consecutive annual increase. And fourth and finally, we will deploy our remaining available free cash flow to share repurchases or acquisitions. Based on our projected free cash flow, we expect to deploy approximately \$600 million to share repurchases or acquisitions in 2025.

Our M&A strategy has not changed. We continue to review and selectively pursue opportunities that have the right strategic fit and the right return for Masco, with the goal of adding 1% to 3% annual top line growth through acquisitions over the long-term. Based on our expected operating performance and capital deployment actions, we anticipate earnings per share for 2025 to be in the range of \$4.20 to \$4.45 per share.

One year ago, we provided our margin expansion targets for 2026 and we are reiterating those targets on this call. For our Plumbing segment, with our industry-leading brands, including Delta and hansgrohe, we expect to expand margins to 20% in 2026, up from 19% in 2024. For our Decorative segment, led by our industry-leading Behr brand, we expect to achieve margins of 19% to 20% in 2026, up from 18.5% in 2024. This range reflects the benefit from our Kichler divestiture, partially offset by slower than initially expected return to growth in the DIY paint market.

For Masco overall, we expect to expand operating profit margins to 18.5% in 2026, up 100 basis points from 17.5% in 2024 and up 170 basis points from 16.8% in 2023. While we expect a stabilizing but challenging market in 2025, we anticipate that the market will return to its historical growth rates of 3% to 5% in 2026. Therefore, we believe we can achieve these margins through leveraging incremental volume, exercising pricing discipline and executing on operational improvements.

I want to finish by reiterating the structural factors that remain supportive of increased repair and remodel activity in the mid- to long-term. Homeowners that took advantage of low mortgage rates are likely to remain in their homes for longer and invest in upgrades and remodels. 1.7 million more homes will reach the prime remodeling ages of 20 to 39 years old by 2027. Home equity levels are at record high levels and millennial household

formation is rising. All of these structural forces provide tailwinds for our business and increase our confidence for a strong repair and remodel market in the coming years.

We believe we are well positioned to capitalize on future volume growth as our capacity, efficiency, productivity and cost structure are set up to drive favorable incremental benefits from additional volume. With these favorable fundamentals, the continued successful execution of our strategic initiatives and our disciplined capital deployment, we are well positioned to outperform the competition and deliver double-digit EPS growth through cycles for our investors.

Now, I'll turn the call over to Rick to go over our fourth quarter full year and 2025 outlook in more detail. Rick?

Richard Westenberg

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

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

Turning to slide 10. Sales in the fourth quarter decreased 3%, but increased 1%, excluding the unfavorable impact of our divestiture of Kichler and currency. Our divestiture of Kichler in the third quarter of 2024 decreased sales by 3% in the fourth quarter.

In local currency, North American sales decreased 4%, but increased 1%, excluding the divestiture impact. International sales increased 2% in local currency. Gross margin in the quarter was 34.8%. SG&A as a percent of sales decreased 170 basis points year-over-year to 18.9% in the quarter, primarily driven by our divestiture and lower expenses.

Our operating profit grew \$19 million to \$291 million and our margin was strong for the fourth quarter at 15.9%. Our margin performance was primarily driven by executing on our cost savings initiatives and lower expenses. This resulted in EPS growth of 7% to \$0.89 per share.

Turning to the full year 2024. Sales decreased 2% over the prior year or 1%, excluding the unfavorable impacts of net acquisition and divestiture activity as well as currency. In local currency, North American sales decreased 2% or 1%, excluding the net impact of acquisition and divestiture activity, and International sales were in line with the prior year.

Our focus on driving operational efficiencies in 2024 contributed to strong gross margin of 36.3%, an expansion of 110 basis points year-over-year. SG&A as a percent of sales was 18.7%. Operating profit for the full year increased \$36 million and operating margin expanded 70 basis points to 17.5%. Lastly, our EPS for the full year increased 6% to \$4.10 per share.

Turning to slide 11. Plumbing sales decreased 1% in the fourth quarter. Currency had a minimal impact on the results. Lower volume and unfavorable mix, each reduced sales by 1%, partially offset by favorable pricing of 1%. In local currency, North American Plumbing sales decreased 2% in the quarter, driven by softness in the wholesale and retail channels, partially offset by growth in the e-commerce channel and at our specialty spa and sauna dealers.

In local currency, International Plumbing sales increased 2% in the quarter, driven by favorable volume and pricing actions, partially offset by unfavorable mix. This performance was driven by growth we achieved across various European markets and slight growth in China, despite a challenging market environment.

Segment operating profit in the fourth quarter was \$200 million, up 1% year-over-year, and operating margin was 16.8%, up 40 basis points. This operating profit performance was driven primarily by cost savings initiatives and lower expenses, partially offset by unfavorable volume and mix, and higher commodity and freight costs.

Turning to the full year 2024. Plumbing sales were in line with the prior year or up 1%, excluding the unfavorable impact of currency. Favorable pricing contributed 2% of growth and our Sauna360 acquisition in the third quarter of last year contributed 1%. This was largely offset by lower volume and unfavorable mix, which each decreased sales by 1%.

In local currency, North American Plumbing sales increased 1%, including a 2% impact from acquisitions, and International Plumbing sales were in line with the prior year. Full year operating profit increased 6% and margin expanded 100 basis points to 19%.

Turning to slide 12. Decorative Architectural sales decreased 6% in the fourth quarter. The divestiture of Kichler lowered sales by 9%, and currency had an unfavorable impact of 1%. In the quarter, total paint sales increased mid-single digits, aided by a favorable impact of inventory timing. Excluding this favorable impact, total paint sales were down low single digits year-over-year, with PRO paint sales up high single digits and DIY paint sales down mid-single digits.

Operating profit in the fourth quarter was \$113 million, up 13% year-over-year, and operating margin was 17.7%. Operating profit performance was driven by incremental volume, including the impact of favorable inventory timing and cost savings initiatives, partially offset by an unfavorable price/cost relationship.

Turning to the full year 2024. Sales decreased 5%, driven by our Kichler divestiture and a low single digit decline in our paint business. For the year, excluding the impact of the inventory benefit, PRO paint sales were up mid-single digits, slightly better than expected, and DIY paint sales were down high single digits, consistent with our expectations. Full year operating income was \$550 million in the segment and operating margin expanded 70 basis points to 18.5%.

Turning to slide 13. Our balance sheet remains strong, with gross debt-to-EBITDA at 1.9 times at year-end. We ended the year with \$1.6 billion of liquidity, including cash and availability under our revolving credit facility. Working capital improved by 6 days to 53 days, or 15.1% of sales. This improvement includes the favorable impact related to the divestiture of Kichler and is expected to normalize at approximately 16% of sales going forward.

Our free cash flow for the year was over \$900 million, driving our free cash flow conversion to 96%. Given our strong cash performance, coupled with the proceeds from our divestiture, we were able to return over \$1 billion to shareholders through dividends and share repurchases, including the repurchase of \$268 million in stock in the fourth quarter.

Now let's turn to slide 14 and review our outlook for 2025. Please note that guidance being provided today includes the impact from the recently enacted China tariffs, net of mitigation actions, but does not include any potential future tariffs.

For Masco overall, we expect 2025 sales to be down low single digits, but operating margin to expand to approximately 18%, up from 17.5% in 2024. Our 2025 sales guide reflects an assumption that the global repair and remodel markets, in aggregate, will be flat to down low single digits. Our sales in 2025, which are expected to

be down low single digits, will be impacted by the 2024 divestiture of Kichler, which will reduce sales by approximately 2% year-over-year.

Additionally, given the stronger US dollar, we anticipate currency will have an unfavorable impact of approximately 1%. Excluding these impacts, we expect our sales to be roughly flat to up low single digits year-over-year.

As we think about the cadence for the year, excluding the impacts of our divestiture and currency, we expect sales to be slightly down in the first half of the year, with modest growth in the back half of the year.

We will continue to invest in our business for future growth while also maintaining cost discipline. As a result, we expect SG&A as a percent of sales to be in line with 2024. As always, we will take appropriate actions to address our costs as the year develops based on market conditions.

Also, as it relates to operating margins, with a softer sales outlook in the first half of the year, the timing of net tariff impacts as well as additional trade show costs in Q1, we anticipate total Masco margins will be roughly flat in the first half of the year, with expansion expected in the second half.

In our Plumbing segment, we expect 2025 full year sales to be flat to up low single digits. We anticipate the full year Plumbing margin will be in the range of approximately 19% to 19.5%. Margin expansion will primarily be driven by pricing discipline, operational efficiencies and continued cost savings initiatives.

In our Decorative Architectural segment, we expect 2025 sales to be down mid-single digits or roughly flat with the prior year, excluding the impact of our divestiture.

Looking specifically at our paint business in 2025, we anticipate our PRO paint business to increase mid-single digits and our DIY paint business to decrease low single digits. We anticipate the full year Decorative Architectural margin to be in the range of approximately 19% to 19.5%, up from our 2024 margin of 18.5%, driven by the favorable impact of our divestiture as well as cost savings initiatives.

With regards to capital allocation, we expect to reinvest approximately \$175 million through capital expenditures, to pay a dividend of \$1.24 per share, up 7% from the 2024 dividend, and to deploy approximately \$600 million toward share repurchases or acquisitions in 2025.

Finally, as Keith mentioned earlier, our 2025 EPS estimate is \$4.20 to \$4.45 per share. This assumes a 211 million average diluted share count for the year and a 24.5% effective tax rate, which is consistent with our 2024 effective tax rate.

As mentioned previously, our 2025 guidance includes the impact from the recently enacted China tariffs. To provide an update on our China exposure, in 2025, we expect to import approximately \$450 million from China, which represents a reduction of approximately 45% since 2018.

From a segment perspective, 80% of this exposure resides in our Plumbing Products and 20% in Decorative Architectural Products. As a result, the impact of the newly imposed 10% tariff on all imports from China would have an annualized impact of approximately \$45 million before mitigating actions.

That said, we have been proactively planning various short-term and longer-term actions such as pricing, negotiating with our suppliers and changing our sourcing footprint. Based on these plans and our proven ability to

navigate previous tariffs, we are confident that we will be able to mitigate these additional costs and minimize the impact to our results in 2025.

The overall tariff environment remains highly uncertain. We will provide updates to the impacts on our business and outlook for 2025 as more information becomes available.

I would like to take a moment to thank our supply chain teams. They have done a tremendous job of managing our sourcing footprint to reduce our exposure while managing our costs, and they continue to pursue opportunities to further optimize our operations. We will continue to closely monitor the tariff situation and we'll be prepared to respond as this fluid situation continues to unfold.

Lastly, additional financial assumptions for 2025 can be found on slide 17 of our earnings deck.

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

QUESTION AND ANSWER SECTION

Operator. Thank you. [Operator Instructions] Your first question comes from Stephen Kim with Evercore ISI. Your line is now open.

Stephen S. Kim

Analyst, Evercore ISI

Q

Thanks very much, guys. Appreciate all the color. Yeah, really, really helpful there. I wanted to ask you a question about the timing that you talked about in Decorative Architectural. Just was curious if you could give us a sense for this inventory timing, how much of an operating margin benefit you think you may have received in the quarter and whether or not this is going to be a headwind to 1Q results that maybe you could quantify for us, either on the sales margins or both?

Richard Westenberg

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

A

Yeah. Good morning, Stephen. It's Rick. I'd be happy to tackle that. So as we indicated in our opening comments, the inventory timing benefit for the fourth quarter was about a mid-single digit benefit to our top line. You can imagine the – or envision that the profit dynamic is consistent with our profitability for the segment, proportionately speaking. And you're right, as it pertains to timing, all else being equal, we would anticipate that to be a headwind as we go into this year, 2025, particularly early this year, kind of an equal amount.

That said, as it pertains to our overall expectations for the segment, we do anticipate that excluding the divestiture of Kichler, we do expect Decorative Architectural to be roughly flat for the year and for our PRO paint business to be up mid-single digits. So continued progress in that space.

Stephen S. Kim

Analyst, Evercore ISI

Q

Yeah. That's helpful. Appreciate that. And then the acquisition continues to be a modest driver to sales longer term. I was wondering if you could give us a – remind us again sort of where your focuses are [ph] and that – (00:32:47) I'm thinking particularly, are you expecting to lean more? Is that pretty much all Plumbing? Or are you thinking that we should also expect something in the Decorative Architectural space? Just give us a sense for what kinds of thing – what kind of opportunities you are seeing out there? And the macro environment, how conducive that is currently to actually acting on some of these? Or if this is maybe more something that you think the timing would favor maybe the back half of the year?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Stephen, this is Keith. Good morning.

Stephen S. Kim

Analyst, Evercore ISI

Q

Good morning.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

As we said in our prepared remarks, our strategy with regards to M&A hasn't changed. We're looking for the right strategic fit for Masco to drive our strategy of bolt-ons in paint and Plumbing. So specifically to your question, we're looking at both paint and Plumbing.

With regard to the overall market, I would say that it remains to be a little bit soft, maybe a little bit of uplift in terms of the deals that we're seeing, but not a significant change. So I'd hesitate to quantify if we think that our acquisitions would come to fruition more in the back half or the first – or the front half. It's really about finding those bolt-ons that are the right fit.

We're patient, as we've talked in the past. And I think Sauna360 is a good example of what we're looking for: tuck in acquisitions, paint and Plumbing, where we can leverage either our channel expertise or our brands, or we can take particular technologies from a specific acquisition.

So hopefully, that gives you a flavor for what we're looking and what the – for what we're looking for and what the overall M&A market looks like for us today.

Stephen S. Kim

Analyst, Evercore ISI

Q

That is very helpful. Appreciate it. I guess, Keith, just the one thing that you didn't mention that I thought maybe you might is, the degree to which technology might be something that factors into your M&A outlook.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Absolutely. I mean, there's aspects of our M&A pipeline where we are looking at technology that we would think would be more advantageous for us to buy rather than grow our own, and it goes the other way as well. So it's a mixed bag, but technology plays a piece of it, presence in markets plays a piece, the overall innovation pipeline of a target certainly factors into it. And overlaying all of that is our ability to create shareholder value through our expertise in channel and brand.

Stephen S. Kim

Analyst, Evercore ISI

Q

Okay. Thanks so much, guys. Appreciate it.

Operator: Your next question comes from John Lovallo with UBS. Your line is now open.

John Lovallo

Analyst, UBS Securities LLC

Q

Good morning, guys. Thank you for taking my questions. The first one is just on the maintained fiscal year 2026 margin targets despite the sale of Kichler. I mean, assuming Kichler contributed about \$250 million of sales at sort of mid-single digit EBITDA margins, it would appear that this could mechanically improve margins by like 100 basis points, and I know you mentioned an offset from, I think, softer DIY. So curious when do you think those DIY volumes could turn positive. It's been several years of negative comps at this point.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Well, that's a bit of a million-dollar question, of course. And the way we think about it first is we look at the fundamentals. And when you think about whether it's millennial household formations or age of housing stock or what we believe to be deferred demand, we've talked about this in the past, where when you look at the pull-forward from COVID and then when you look at what happens to demand as the market recovered from that pull-forward, we're well below the historical line of growth, even factoring in and compensating for the pull-forward of the demand.

So we believe we're in a deferred state and fundamentally, it comes down to consumer confidence. So as we see consumer confidence start to change and people come out of that deferred mode and pull the trigger on these deferred projects, we think it's going to be a wonderful opportunity for us. And we have the capacity in place to be able to address the increased demand and we have certainly the efficiency. Very proud of what the team has been able to do over the last couple years in depressed markets as it relates to improving our margins and our overall operating efficiency.

So when that happens, we look to the point-of-sale information that we have and trends that we're seeing in the market to help inform that. And I'll tell you that where we sat coming out of 2024 is in more of a position of stability than what we saw in the prior year. But fundamentally, it's an estimate of when that consumer comes back. It's a volatile market. And I think one of the keys for us is the fact that we have demonstrated the ability to execute well in these kind of volatile markets because of our portfolio, because of our Masco operating system, where we drive down to the penny, how we manage our businesses. And that's been very productive for us and we're going to continue to do that.

John Lovallo

Analyst, UBS Securities LLC

Q

Okay. So just to be clear, the DIY headwind is offsetting the Kichler benefit, the mechanical Kichler benefit?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

That's right.

John Lovallo

Analyst, UBS Securities LLC

Q

Okay. Got it. And then second question is you mentioned some recent mitigation efforts in relation to the China tariffs. Curious, if there are tariffs on Mexico. There is the Watkins facility there. Is there anything you can do to resource any of that product elsewhere, given that it's one of two facilities, I believe?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah, we do have a manufacturing plant in Mexico for our spa business. Of course, we have significant manufacturing facilities in the United States. I think we have some 30 manufacturing facilities in the United States and 20 distribution centers throughout the country. So, far and away, our biggest footprint is here in North America. And we do have the opportunity to resource product from Mexico into the United States. Significant manufacturing down in Southern California – near the border in the San Diego area where our Watkins headquarters is. So there is a capability to move products from Mexico.

John Lovallo

Analyst, UBS Securities LLC

Q

Okay. Thank you, guys.

Operator: Your next question comes from Anthony Pettinari with Citi. Your line is now open.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Good morning. I was wondering if you could talk a little bit more about kind of the cost inflation assumptions embedded in the 2025 guidance and any kind of offsetting pricing actions that could be considered in the guide, and maybe if you can speak to Plumbing and then DA.

Richard Westenberg

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

A

Yeah, sure, Anthony. It's Rick. So with regards to our expectations for commodities, as we go into this 2025 calendar year, our expectations on Plumbing is a low single digit inflation, and that includes commodity and freight costs. Commodity and freight costs are down from their peaks in mid-2024, but they still remain elevated. And so we expect that to be a bit of a headwind as we go into this 2025 calendar year. That said, we do expect our pricing to more than offset the commodity headwind and therefore, to have a positive price/cost dynamic as we go into – as we are entering into 2025.

As it pertains to Decorative Architectural Products' overall inflation, we do see a bit of a headwind and we are seeing some inflation – or sorry, some upward pressure as it pertains to our raw material inputs of resins and TiO2. We're not calling it quite yet, but we are seeing some pressure there.

With regards to pricing, as we've mentioned previously, we do have an arrangement with our channel partner with regards to price/cost neutral in terms of our dynamics. And so from a price/cost perspective, we are assuming a price/cost flat dynamic for DAP in 2025.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. And then just company-wide, I mean, you cited cost savings initiatives as a driver of margin expansion in 2024. I'm wondering, as you think about this year, would the margin benefit or the dollar amount of cost savings initiatives be similar this year? Would it be greater, maybe smaller, or is that something that you would dial up or down kind of as the year goes on? Just wondering if you can kind of frame that.

Richard Westenberg

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

A

Sure, Anthony. So, with regards to our cost savings initiative and operational efficiencies, those continue to be a huge priority. As Keith articulated, we've had a lot of success driving those initiatives and leveraging our Masco operating system to drive efficiencies throughout our businesses. And that's allowed us to expand margins each of the last couple of years with regards to our overall business. We're going to continue to drive that performance.

As we've articulated, our expectations for the market and the industry for 2025 are rather modest. And so in order to deliver continued margin expansion, we're going to continue to drive the operational efficiencies and cost savings initiatives as we've done in previous years.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

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

Operator: Your next question comes from Sam Reid with Wells Fargo. Your line is now open.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Awesome. Thanks so much. I wanted to talk on your growth outlook. Kind of, when you think about that 1H versus 2H dynamic that you talk to, kind of, what gives you the confidence that growth can accelerate in the second half? Is it based on industry growth improving in 2H relative to 1H? And then, can you just give us some underlying assumptions that might be embedded in that outlook, macro, et cetera, just to help us frame it? Thanks.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Well, first of all, we look at the fundamentals that I've talked about before. And they are really stacking up in the favor of an improved market. When you think about – it's a bit repetitive here, but it is very significant when you think about the age of stock. And then the key metrics, as you asked for some metrics that we look at, equity in the home, average home prices, age of stock, millennial household formations, those are the things that are really correlated quite well to R&R demand. And at the end of the day, it's about the consumer and being confident investing in their homes. So all things that I just mentioned are tailwinds to that.

Secondly, and broadly speaking, we look at how the year finished out and how we're entering this year versus last year. And our estimation is that while it'll be, call it, slightly down in the first half and modest growth in the second half, our estimation is that this industry will return to growth in 2026. And that's how we're calling and laying out 2025 with a particular focus on being able to manage our business in dynamic times when changes happen that weren't necessarily called for.

And as I mentioned in my prepared remarks, we did a fantastic job and gained significant share during our most volatile times, be it COVID, supply chain interruptions, Texas freezes, colorant plants that explode, all those sorts

of things that were curveballs thrown at us, we were able to not only manage it in terms of consistent margin expansion, but manage it in terms of consistent share gain as well. And that's our plan going forward.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

No, that helps. And then, maybe switching gears, touching on tariffs a bit more and then drilling down to Plumbing specifically. Were there any distributors kind of/retail activity where there was perhaps a step-up in Plumbing inventory ahead of tariffs, thinking specifically kind of in that late November, early December period right after the election when the expectations for tariffs potentially ramping were likely in the narrative. So just curious kind of did you see any inventory stock up ahead of that.

Richard Westenberg

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

A

Sam, it's Rick. No, we did not. We didn't see any material change in the channel inventories in Q4. So I know what you're referring to in terms of some contingency planning, but we didn't see that in any meaningful way, at least in terms of our channels.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Got you. Thanks so much. I'll pass it on.

Operator: Your next question comes from Matthew Bouley with Barclays. Your line is now open.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Hey, good morning, everyone. Thank you for taking the questions. So sticking with the topic of tariffs, I think the way you quantified it, I don't know if that's in terms of a gross impact, if that's maybe \$0.15 or a little bit more than that impact to the year. My question is on the mitigation. If that's mainly sourcing or operational, or if there's any assumption of kind of incremental price and how you guys are thinking about mitigating that? Did you announce any kind of incremental price since China tariffs went through, or did sort of your initial price increases cover it? Just kind of how you're thinking a little bit more detail and maybe quantification around that mitigation side of it? Thank you.

Richard Westenberg

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

A

Sure, Matt. Good morning. So, as it pertains to our mitigation actions, we're really – we've been preparing for mitigation for the last several months. As you would imagine, this has been telegraphed for a while, and we've been preparing both short-term and long-term mitigation actions. And it's really a combination of a number of levers, like we did in the 2018, 2019 timeframe. And that is a combination of the sourcing footprint.

And as I mentioned in my opening comments, we've successfully reduced our exposure to China by 45% since 2018, really excellent work by the supply chain team here at Masco with regards to managing in a very methodical way, a change in our sourcing footprint while preserving cost and operational efficiencies. In addition, we are having discussions with our suppliers in terms of some partial offsets as well as pricing. Those are all in flight with regards to the action. We're not going to quantify the specific components of those here, but we do believe that the combination of those mitigation actions will significantly mitigate our exposure and minimize the

impact in 2025. And as we indicated in our – in the opening comments that we've factored in the net impact of tariffs in our 2025 guidance.

One thing to note is there is, from a timing perspective, the tariffs, as we all know, got – went into place on February 4. There is some delay with regards to when they will roll into our [ph] P&L (00:48:20) in terms of parts and components that are on their way to the US as well as they flow through our inventory. Our mitigating actions will have – will layer in over time and will – some will be concurrent with the tariff impacts and some will be delayed. And so that factors into a little bit of our cadence of our operating profit margins being flattish in the first half of the year and increasing in the second half of the year.

So, hopefully, that provides some additional color.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Got it. Yeah. Thank you for that, Rick. Very helpful. And then secondly, maybe jumping over to the paint side. You're kind of guiding DIY down low singles and PRO up mid singles in 2025. Clearly, that's a continuation of a reasonably long trend here. So the question is kind of where we are on DIY? You mentioned this kind of deferred state of demand and just kind of slower-than-expected return to growth there.

I mean, the longer we get into this, do you start thinking it's just something more structural around the industry kind of going back to do-it-for-me? And in that sense, maybe it makes more sense to just push harder on to the PRO side. So just how are you thinking about this – any eventual return to growth on the DIY side? Thank you.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

Matt, I think there was a bit of a structural explanation as you think about going back a few years and the baby-boomers and those – the baby-boomers being a significant DIY cohort. And as they are getting older, there is a tendency to switch to some degree to a do-it-for-me model for some of that cohort. And I think structurally that combating that or kind of weighing in on the other side is the household formations, the millennials. And we're seeing that clearly, I think that's rather obvious, but we're also seeing that they're DIYers and they're not just single project DIYers.

And when you look at where we are with regards to our portfolio, and particularly in the case of coatings or architectural paint, it's a relatively low cost as a percent of total project costs when you look at the product cost. So it's a very- it's practically a perfect combination for a DIY product. It's a low cost on the product. It's something that's relatively easy to do. It makes a big bang for the buck in terms of the change it makes in a person's home and it's something that a couple can do with their small children around.

So it's a good project for us, and I think that from a structural perspective that those are a couple dynamics. I would remind you that we're expecting [indiscernible] (00:51:15) in our business to outperform the market. So when we adjust for [ph] X ex (00:51:20) divestiture, we plan on being relatively flat in our Deco segment.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Got it. Thanks, Keith. Good luck, guys.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Thank you.

A

Operator: Your next question comes from Trevor Allinson with Wolfe Research. Your line is now open.

Trevor Allinson

Analyst, Wolfe Research LLC

Hi. Good morning. Thank you for taking my questions. First, just I want to follow up on the reiterated 2026 margin targets for both Plumbing and Dec Arc. You provided some of the color on the unchanged Dec Arc guide, softer volumes offsetting some of the Kichler divestiture tailwinds. On Plumbing, presumably, volumes are also weaker than you likely expected when initially laying out that 2026 guidance, but you're still retaining margin expectations there. Can you just talk about maybe what's coming in better than what you were previously anticipating that's perhaps offsetting some of the softer volumes there?

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

I've got a lot of confidence based on what we've been able to do in the past. Our production system is very mechanical as it relates to moving projects through a pipeline. So we have visibility of the size of our productivity pipeline, and we also have data on how long it takes to move through the pipeline and what is our hit rate, if you will, or our batting average on our product. So we are just getting more confident in our ability to continue to grind and continue to drive productivity. So that's a piece of it.

A

Certainly, we have strong efficiencies that then feed towards our incremental profit on incremental volume, and we're getting more confidence in that and that is improving. So it's a combination. But in a word, I'd say momentum. We feel good about our momentum in the space, and Plumbing – the Plumbing business is running extremely well.

Trevor Allinson

Analyst, Wolfe Research LLC

Okay. Understood. That's very encouraging. And then second, going back to supply chain and China exposure, I mean, clearly, there's been threats for tariff rates to move even higher from here moving forward. As you guys look out 12 months, appreciating you've made a lot of progress here already, but you look out 12 months from now, do you expect to continue driving your China supply chain exposure even lower? And any help there on perhaps where that could go? Thanks.

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Yes. We do expect that and we're continuing to do that. We're doing it carefully. We're working with our existing supply base by and large. So we're protecting our quality, we're protecting our delivery and fill rates, and we're working with suppliers that we've worked with for well over a decade and are involved in our innovation pipeline and work with us in all aspects of our business. So they're true partners.

A

So we would anticipate continuing to create a shift, if you will, or continuing with our shift away from China. We're also working on value engineering, where we can continue to drive out costs that do not create customer benefit. We're working on cost sharing with our suppliers and of course, we have price as a lever as well.

Trevor Allinson

Analyst, Wolfe Research LLC

Got you. Appreciate all the color. Good luck moving forward.

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Thank you.

A

Operator: Your next question comes from Susan Maklari with Goldman Sachs. Your line is now open.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Good morning, everyone. Perhaps building off of...

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Good morning, Susan.

A

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Good morning, Keith. Building off of your comments there on new products, can you talk a bit about the innovation pipeline that you have? How that's perhaps offsetting any price elasticity that could be a potential headwind in some of these operations? And any thoughts on the R&D and the Vitality Index and how we should be thinking about those over the next year or two?

Q

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Yeah. Our pipeline has our Vitality Index fairly steady at right around 30% of products less than 36 months old that were new. So I think it's steady as she goes and we're continuing to drive it.

A

We look at effectively solving customer pain points. So we don't necessarily target a particular technology for the technology's sake. Rather, we begin with a customer-back approach. So things like returning product to service sooner after you're painting; things like being able to paint when you have a tighter window with regards to good sunny weather, for example; intuitive solutions to what people care about in terms of water filtration, both in the shower and in the sink; ease of use, those sorts of things.

So we have a defined process that looks at and mines out, if you will, customer pain points and things that are – the customer is interested in. And in doing so, inevitably, that ends up being something that they're willing to pay for that ultimately ends up helping with respect to our margin and making up for some headwinds that we might experience other places in the business. So both in Decorative Architectural and in our Plumbing space, both internationally and in North America, we have a very strong innovation pipeline, and the people who are executing it are doing a great job.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. And then, you mentioned that you expect working capital to normalize to about 16% of sales this year. And plugging in the 2026 targets at a high level suggest you could see another step-up in that working capital to sales. Can you talk a bit about the efforts that you can realize there, especially perhaps as some of these efforts around efficiencies, productivity and cost savings come through? How we should be thinking about the upside?

Richard Westenberg

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

A

Sure, Susan. It's Rick. With regards to working capital, we did see a benefit of the divestiture of Kichler really in the calculation for 2024 and that's why we were down closer to 15%. As indicated in my opening remarks, we would expect that to normalize around 16%. Obviously, we're very focused with regards to being disciplined on working capital really through our supply chain.

And so, as we continue to drive efficiencies in terms of our productivity, our cost savings initiative, we would see the benefit of that flow through working capital. But I think it's fair to assume that as for estimation or projection purposes that working capital as a percent of sales will scale with the business and will stay at around about 16% of sales.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you and good luck with everything.

Richard Westenberg

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

A

Thank you.

Operator: And your last question comes from Adam Baumgarten with Zelman & Associates. Your line is now open.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Hey, good morning, everyone. Just in paint, it's been a couple months since the PPG architectural divestiture has closed. Just curious if you've noticed any changes in the paint aisle at Home Depot or if you expect any going forward?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

A

No, we really haven't, Adam. It's been fairly typical.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Okay. Got it. And then just lastly, just to clarify on the factoring in of the net impact of the incremental China tariffs. Just to be clear, I know you didn't give a number, but is that a modest negative impact you're embedding in 2025?

Richard Westenberg

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

A

Yeah. Adam, it's Rick. So with regards to the net impact, it really depends on the timing of – in terms of the flow through, but we – let me put it this way, we're minimizing the impact. We're obviously executing our mitigation actions as we speak. That's flowing through. And we've factored that within regard – with regards to our guidance range and we would expect to mitigate a large chunk of that and minimize the impact in 2025.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Okay. Got it. Thanks. Best of luck.

Richard Westenberg

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

A

Thank you.

Operator: There are no further questions at this time. I will now turn the call over to Robin Zondervan for closing remarks.

Robin L. Zondervan

Vice President, Investor Relations and FP&A, Masco Corp.

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

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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