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Masco Corp. (MAS)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to Masco Corporation's Third Quarter 2025 Conference Call. My name is Sylvie, and I will be your operator for today's call. As a reminder, today's conference call is being recorded for replay purposes. [Operator Instructions]

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

Robin L. Zondervan

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

Thank you, operator. And good morning, everyone. Welcome to Masco Corporation's 2025 third quarter conference call. With me today are Jon Nudi, President and CEO of Masco; and Rick Westenberg, Masco's Vice President and Chief Financial Officer.

Our third 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 Jon.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

Thank you, Robin. Good morning, everyone, and thank you for joining us. I want to start today with a few reflections from my first 100 days as President and CEO of Masco. Over the last three months, I've had the privilege of meeting with our teams, customers and shareholders. I've toured manufacturing sites, participated in strategy reviews, and listened to feedback related to both our strengths and opportunities.

[ph] The work confirm (00:02:41) what I believed to be true when I took this role. We have a strong foundation, industry-leading brands, innovative products, and incredibly talented and dedicated people. Our product portfolio is focused on the right categories. We have industry-leading capabilities. We've shown resilience in navigating dynamic environments while continuing to deliver value for our customers, consumers and shareholders.

I've been especially impressed by the market leadership across our business units. Delta Faucet Company has demonstrated incredible agility in the face of a dynamic geopolitical and macroeconomic environment. Their strong partnership with their largest retail customer drives significant value for them and for us. hansgrohe

continues to be a global leader with customers in over 100 countries. And Watkins Wellness is winning with strong innovation even amid broader category headwinds.

There's real momentum here and also real opportunity. In the coming months, we will focus on unlocking those opportunities with continued strong execution, greater speed and strategic investments in the capabilities that set us apart. I'm proud to be part of a team that delivers at a high level and I'm incredibly excited for the opportunities ahead.

Now let's turn to our third quarter performance and updated outlook for 2025. Please turn to slide 6. We continued to navigate a dynamic geopolitical and macroeconomic environment during this quarter. While the near-term market conditions remained a headwind to our business, our teams continue to focus on execution to grow market share and drive long-term shareholder value.

For the quarter, our net sales decreased 3% in local currency, and excluding the Kichler divestiture, sales decreased 2%. Operating profit was \$312 million and operating profit margin was 16.3%. Earnings per share for the quarter was \$0.97.

Now turning to our segments, Plumbing sales increased 1% in local currency. North American Plumbing sales increased 1%, driven by favorable pricing. Delta Faucet delivered strong performance again this quarter, particularly in e-commerce and trade.

We recently relaunched our iconic Newport Brass brand, showcasing the brand's timeless design and enduring quality. This relaunch helped shape and expand our luxury portfolio and represents an important growth initiative for our business with an addressable market of \$1.8 billion.

Another important growth initiative for Delta is in the water filtration category, with a market of \$1.2 billion for under-counter water filtration products. Delta's new product introductions in this category continue to outperform our initial expectations and our tankless reverse osmosis water filtration system was recently named the winner of the Good Housekeeping 2026 Kitchen Award.

International Plumbing sales were in line with the prior year in local currency. We saw growth across many of our European markets, while the China market was increasingly challenged. Operating profit for the segment was \$204 million. Operating margin was 16.4% and included higher costs such as tariffs, commodities, and inventory-related reserves.

Turning to our Decorative Architectural segment, sales decreased 12% in the quarter, or 6% excluding our divestiture of Kichler. Operating profit for the segment was \$128 million and operating margin increased 100 basis points to 19.1%.

Within our paint category, overall paint sales decreased low-single digits. DIY paint sales decreased mid-single digits as demand for DIY paint remains soft across the industry, impacted by low existing home turnover. In PRO paint, sales increased low-single digits. This continues the trend of multiyear growth for our PRO paint business, remaining tightly aligned with the Home Depot as we both prioritize and invest in strategic initiatives that allow us to capitalize on the sizable growth opportunity in the PRO paint market.

We also continue to develop new products at Behr that serve the needs of our customers. Most recently, we've launched KILZ original water-based primer and BEHR PREMIUM PLUS ECOMIX, a plant-based interior paint.

These launches demonstrate our commitment to introducing innovative and sustainable products with quality that our customers can trust.

Turning to capital allocation, we generated strong free cash flow during the quarter and maintained a solid balance sheet. We remain committed to our capital deployment strategy and returned \$188 million to shareholders this quarter through dividends and share repurchases. I'm proud of how our teams continue to work diligently to implement various mitigation actions in response to the near-term macroeconomic uncertainty, the geopolitical environment and rising costs. We are focused on remaining agile as we continue to execute effectively in this rapidly changing environment.

Turning to our expectations for the full year, we now anticipate adjusted earnings per share for 2025 to be in the range of \$3.90 to \$3.95 per share, compared to our previous expectation of \$3.90 to \$4.10. Our updated range includes the impacts from our third quarter results, as well as higher tariffs and our expectations for softer industry demand resulting from the ongoing macroeconomic and geopolitical uncertainty.

While uncertainty remains for the near term, we are focused on positioning ourselves for growth over the mid to long term. The structural factors for repair and remodel activity are strong, including the age of the housing stock, consumers staying in their homes longer, and near-record high home equity levels. We have the right portfolio mix and our innovative new product introductions are outperforming our expectations.

We continue to gain market share in key growth areas, including e-commerce, luxury faucets and showering and PRO paint, and we're building strategies to further accelerate growth opportunities. Our high-performing teams have a history of leadership in navigating dynamic environments. When that leadership is combined with the strength of our brands, innovative products and unmatched customer service, we believe we are well positioned to continue to deliver long-term value for our shareholders.

With that, I'll turn the call over to Rick to go over third quarter results and our 2025 outlook in more detail. Rick?

Richard Westenberg

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

Thank you, Jon, 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 8, sales in the third quarter decreased 3%, or 2% excluding the impacts of our divestiture of Kichler and favorable currency. Our divestiture of Kichler in the third quarter of 2024 resulted in a decrease in sales by 3% year-over-year in the third quarter of 2025, while currency represented a 1% increase in sales. In local currency, North American sales decreased 6%, or 2% excluding the divestiture impact. International sales were in line with the prior year in local currency.

Gross margin of 34.6% in the quarter was impacted by higher tariffs and commodity costs. SG&A decreased \$16 million, primarily due to our divestiture. SG&A as a percent of sales improved 20 basis points to 18.4% in the quarter. Operating profit was \$312 million in the quarter and our margin was 16.3%. Operating profit was impacted by lower volume and higher costs, primarily related to tariffs, commodities, and inventory-related reserves.

Note that the temporarily elevated tariffs of 145% on China imports added approximately \$15 million to the overall tariff impact in the third quarter, primarily in the Plumbing segment. These impacts were partially offset by pricing actions and cost savings initiatives. Our EPS was \$0.97 per share in the quarter.

Turning to slide 9, Plumbing sales increased 2% in the third quarter, or 1% excluding the favorable impact of currency. This growth was largely driven by pricing, which increased sales by 3%, partially offset by lower volume.

In local currency, North American Plumbing sales increased 1% in the quarter. This performance was primarily driven by Delta Faucet, which delivered growth in both the e-commerce and trade channels. In local currency, international Plumbing sales were in line with the prior year.

hansgrohe continued to see growth in many of its European markets, including its key market of Germany. This growth was offset primarily due to an increasingly challenging market in China. Segment operating profit in the third quarter was \$204 million and operating margin was 16.4%. Operating profit was impacted by lower volume and higher costs such as tariffs, commodities, and inventory-related reserves, partially offset by pricing action and cost savings initiatives.

Turning to slide 10, Decorative Architectural sales decreased 12% in the third quarter, or 6% excluding the divestiture of Kichler. Performance in the quarter was driven by lower volume in our paint business as well as our builders' hardware business, which also was unfavorably impacted by timing of shipments.

In the quarter, total paint sales decreased low-single digits due to lower volume. PRO paint sales were up low-single digits and DIY paint sales decreased mid-single digits. Given the persistent softness in the overall DIY paint market and the favorable inventory timing we experienced in the fourth quarter of last year, we continue to anticipate our total paint sales for the full year to decrease mid-single digits.

Excluding the impact of the prior-year inventory timing benefit, we would anticipate full-year DIY paint sales to decrease high-single digits. In our PRO paint business, we continue to expect sales to increase mid-single digits for the full year. Operating profit in the third quarter was \$128 million, primarily impacted by lower volume, partially offset by cost savings initiatives. Operating profit margin increased 100 basis points to 19.1%.

Turning to slide 11, our balance sheet remains strong with gross debt to EBITDA at 2 times at quarter-end. We ended the quarter with \$1.6 billion of liquidity, including cash and availability under our revolving credit facility. Working capital was 18.5% of sales at quarter-end. Working capital continues to be impacted by tariff-related dynamics, including higher material costs and pricing increasing our working capital balances.

Given our strong cash generation, we returned \$188 million to shareholders in the third quarter through dividends and share repurchases, including the repurchase of \$124 million in stock. As it relates to capital allocation, we now expect to deploy approximately \$500 million toward share repurchases or acquisitions in 2025, slightly higher than our previous expectation of at least \$450 million. This increase is driven by a cash tax benefit from the recently enacted tax legislation.

Now let's turn to slide 12 and review our full-year outlook. The market environment remains volatile and tariff uncertainty persists. The guidance that is being provided today includes the impact of currently enacted tariffs in effect in October, which now includes new tariffs on copper, anti-dumping duties on glass, and increases to global reciprocal tariffs, particularly on Vietnam, Thailand and the European Union.

As a result of these additional tariffs, we now estimate that the total annualized cost impact of all incremental tariffs enacted this year to be approximately \$270 million before mitigation, up from \$210 million as of our second quarter earnings call. Of the \$270 million annualized cost impact, approximately \$140 million continues to be related to the incremental 30% China tariffs and the remaining \$130 million is driven by the global reciprocal

tariffs; the 50% tariff on steel, aluminum and copper; and the glass anti-dumping duties. Of this approximately \$270 million total annual cost, we expect a 2025 in-year impact of approximately \$150 million before mitigation, up from \$140 million as of our second quarter call.

Our teams continue to actively work to mitigate these additional costs through a combination of levers. These include cost reductions, continued efforts to change our sourcing footprint, and pricing where necessary. We anticipate that these mitigation actions will mostly offset the direct cost impact of the currently enacted tariffs in 2025. It is important to note that our guidance does not attempt to estimate the impact of potential future tariffs or any changes in existing tariffs.

Turning to the overall market, our expectation continues to be that the US and international repair and remodel markets will decrease low-single digits in 2025. For Masco, we expect our sales in 2025 to decrease low-single digits, impacted by the 2024 divestiture of Kichler, which will reduce sales by approximately 2% year-over-year. We anticipate currency will have a favorable impact of approximately 1%.

Excluding the impact of our divestiture and currency, we now anticipate Masco's overall sales to be down low-single digits versus our prior guidance of roughly flat year-over-year, given continued industry softness, with lower volumes partially offset with pricing. As a reminder, fourth quarter sales will face a challenging year-over-year comparison due to the favorable inventory timing impact we experienced in our paint business in the fourth quarter of last year.

We now anticipate total company operating margin to be approximately 16.5% in 2025 versus our previous guide of 17%, driven by slightly lower volume, impacts of additional tariffs and higher costs. In our Plumbing segment, we continue to expect 2025 full-year sales to be up low-single digits. We now anticipate the full-year Plumbing margin will be approximately 18% versus our previous guide of 18.5%.

In our Decorative Architectural segment, we continue to expect 2025 sales to decrease low-double digits or mid-single digits, excluding the impact of our divestiture. We also continue to anticipate the full-year Decorative Architectural margin to be approximately 18%.

Finally, as Jon mentioned earlier, our 2025 EPS estimate is \$3.90 to \$3.95 per share. This continues to assume a 211 million average diluted share count for the year and a 24.5% effective tax rate.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And your first question will be coming from Stephen Kim at Evercore ISI. Please go ahead.

Stephen Kim

Analyst, Evercore ISI

Q

Hey. Hey, guys, it's Steve. Thanks very much for all the color. We will have a – we do have a tariff question, but I wanted to start off actually on the paint side. There was a competitor who talked about a price increase going in January 1. I was wondering if you could sort of talk about how that might influence your outlook for pricing as we get into the new year on Dec-Arch. And maybe you can talk just generally about how – given the relationship you have with Depot, how you think about pricing relative to competitor actions.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. Hi, Steve. It's Jon. Thanks for the question. We certainly have a unique relationship with Home Depot. It spans 40-plus years, incredibly strong. And as you mentioned, we do have a relationship. It's essentially price/cost neutrality over time. As we look at our Dec and particularly our paint input costs, we see some upward pressure but not significant. So at this point, again, we'll continue to have private conversations with our retail partner, but I wouldn't expect to see significant pricing on paint as we move into the coming year.

Stephen Kim

Analyst, Evercore ISI

Q

Okay. That's very helpful. Appreciate that. And Aatish, do you want to jump in on the tariff?

Aatish Shah

Analyst, Evercore ISI

Q

Yeah. Just want to clarify on the tariffs. When all is said and done, kind of longer term impact to Plumbing margins from tariffs, like, how do you see that given that price actions will mostly mitigate tariffs dollar for dollar? It's kind of like more of a longer-term question on Plumbing.

Richard Westenberg

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

A

Yeah, sure. Good morning. Well, from a tariff perspective, as we've all realized here, it's a relatively volatile and dynamic environment. And so, based off of the current tariffs enacted as of October, we articulated it's about a \$270 million annualized impact. And we're tackling that on a number of fronts from a mitigation standpoint, first and foremost from a sourcing footprint standpoint, particularly sourcing out of China where our largest exposure exists to other markets, also reducing costs and sharing that tariff impact with our suppliers. And third is pricing, as you alluded to.

Those are levers that we continue to pull. And our objective is to not only offset the dollar cost of the tariffs, but ultimately the margin implications over time. So, obviously, we've got to track and monitor the situation closely. But based off of where we sit today, our expectation is that we'll continue to work towards mitigating. As we mentioned in our comments, we've mitigated a large part of the tariffs, not all, but a large part of the tariffs here in

this calendar year. And certainly, our objective as we move into 2026 is to mitigate further as well as start working to build margins. So we're continuing to focus on the mitigation and working to restore our margins over time.

Aatish Shah

Analyst, Evercore ISI

Q

Great. Thank you.

Operator: The next question will be from Matthew Bouley at Barclays. Please go ahead.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Morning, everyone. Thank you for taking the questions. I wanted to ask one, I guess, kind of zooming into the Plumbing margins and, I guess, the 3Q results specifically. I think you guys had previously signaled that there would be some of that impact from the 145% tariffs. And so, I mean, I guess that played out. But the question is, was there anything else that was effectively a surprise versus your own expectations? Did any of those incremental tariffs that were coming in the summer ended up sneaking into the quarter there as an impact? Or just any other cost that ended up surprising you? Thank you.

Richard Westenberg

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

A

Sure, Matt. Good morning. It's Rick. As it pertains to our Q3 results, I would say it was impacted really by three drivers. One is tariffs, as you articulated. There were incremental tariffs since our Q2 call, as you articulated. But those – that took our in-year impact from \$140 million to \$150 million. But that incremental \$10 million of in-year impact is really going to be a Q4 event. So those were new tariffs since our Q2 call. And so that factors into our updated guidance for the year. But that's really a Q4 dynamic.

As you also alluded to, within the tariff realm, we did experience that elevated tariff impact on the 145% on China imports. That was about a \$15 million impact in Q3 specifically. And that was, as we alluded to in Q2, something that we anticipated but did manifest itself in Q3.

The second driver is with regards to overall softness in the industry. And so we do believe that the industry, both North America and international, is going to be down low-single digits. We're really coming in from an industry perspective on the lower end of that range. And so that was a bit of an impact as we flow through Q3 as well as the calendar year outlook.

And then fourth, we're incremental – I'm sorry, third was incremental cost, both with regards to commodity inputs, particularly on copper that continues to be elevated, as well as the inventory-related reserve, which really was an update in our assumptions based off of market conditions that we – as we generally review our reserves on a quarterly basis. We just had a higher than typical adjustment in the quarter. So that would be really the drivers behind our margin performance in the quarter.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. Thank you for that, Rick. I guess, secondly, I wanted to touch on the builders' hardware business since, I guess, paint and coatings was only down low-single digits overall. I think I heard you say there was some unfavorable inventory timing. I'm wondering if there was maybe a pre-buy their earlier in the year or just kind of more elasticity related to price increases in that category. So presumably, it would have been a fairly large move

in that business to impact the segment as it did. So, just any more color on exactly what's going on there? Thank you.

Richard Westenberg

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

A

Sure, Matt. It's Rick. Yeah, so as it pertains to the builders' hardware business, it was impacted by softness in sales as we saw really across the industry. But as we mentioned in our opening comments, there was a bit of a shipping timing dynamic. It was really due to a planned shipping process change in the quarter. So we curtailed our shipments during the quarter in order to effectuate the change. So it is something that we noted in our talking points, but we do not believe that it would be a significant impact for the calendar year overall.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

All right. Perfect. Thanks, guys. Good luck.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thanks, Matt.

Richard Westenberg

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

A

Yeah.

Operator: Next question will be from Michael Rehaut at JPMorgan. Please go ahead.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much. First question, I just wanted to clarify on the margins, Plumbing margins for the third quarter. If the – given that some of that was already anticipated, the 145%, was the delta perhaps versus expectations a little more driven by the inventory-related reserves or were there other factors also at work? Because I think the overall more recent tariff changes, I think, you said was more of a 4Q event.

Richard Westenberg

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

A

Yeah. Sure, Mike. You're right. As it pertains to our expectations coming into the quarter, we did have contemplated the elevated China tariffs. So that was part of our expectation. I'm not sure it was fully contemplated all in Q3 in terms of external expectations, but certainly we had contemplated that internally.

As it pertains to developments since our second quarter call, I would say there were two. One is the inventory-related adjustments that we alluded to. And second is just softer sales, particularly in certain markets like China, that came in from an industry perspective lower than we had anticipated.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Okay. Perfect. And then in terms of the overall full-year sales guidance, I believe last quarter you had consolidated sales still down low-single digits, similar to what you have in this updated guide. But it seems like

perhaps you're now kind of talking towards the lower end of that guide or lower end of that down low to single-digit range. Just wanted to make sure I also have that right.

And again, just to kind of – and I apologize if you kind of hit on this earlier, but just to be clear, which segment that's really coming from, if part of that is the builder hardware or maybe a little bit softer trends in Plumbing, as you just alluded to, international or North America? Just a little bit more granularity around that.

Richard Westenberg

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

A

Sure, Mike. Yeah, your observation is directionally correct. Ultimately, we see the industry coming in a bit lower, kind of on the lower end of our range. As expressed in EPS, we are coming in at the lower end of our range that we've publicized in our Q2 earnings call. And part of that is driven based off of lower industry expectations. And it's relatively across the board, I would say, that it does impact the Plumbing segment, as we mentioned, particularly China, but also impacts our builders' hardware as well as our DIY paint.

So, not dramatic changes, but the industry is a bit softer really at the lower end of our expectations. As it pertains to our underlying performance, I would classify that as pretty solid, meaning that we're continuing to perform in line or in many categories better than the overall industry. It's just the overall industry softness that continues to be relatively weak.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much.

Operator: The next question will be from Mike Dahl at RBC Capital Markets. Please go ahead.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Hi. Thanks for taking my questions. Just some clarifying questions on tariffs. I guess, just to be clear on China, it seems like you're still at, call it, \$450 million to \$500 million of underlying cost of goods sold. So, there's been discussions in the last couple of days about the tariffs getting reduced by maybe 10%. Is it right to think about that as a \$50 million annualized impact if that came to fruition in terms of that \$140 million going to something more like \$90 million to \$95 million?

And then the second part of the question would be, if you could just break out what's like within that other \$130 million? Can you just specify what the global reciprocal bucket is versus the steel, aluminum, copper and anti-dumping?

Richard Westenberg

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

A

Sure, Mike. Your math on the first question is directionally correct. As we've articulated in the past, our annual import exposure from China is \$450 million on a 30% tariff from China. That represented about \$140 million of impact. So, hypothetically speaking, if there were a change in tariffs, whether it's plus or minus, you can extrapolate from there.

As it pertains to your second question, we're not going to provide a detailed breakdown in terms of the composition of our exposures in the "other bucket." It is really a composition of reciprocal tariffs, Section 232

tariffs on steel, aluminum and copper, as well as the glass anti-dumping duties. And part of it is it's a dynamic environment. And so, as we continue to modify our sourcing footprint as we move out of China into other markets, and we continue to manage and work aggressively to mitigate our tariff exposure, those underlying exposures will change and update over time.

What we will do and we will continue to do is provide the investment community with an overview in terms of the financial implications split between China and pretty much everything else, as we've done this quarter. And then from an annualized perspective, as we've articulated, we have a \$270 million annualized exposure – or I'm sorry, impact, \$140 million is China, \$130 million is everything else. And we'll continue to provide updates if and as things change in our quarterly reviews.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Okay. Understood. That's so helpful. My second question is just specifically on paint. Understood that you've got the comp dynamic, the fourth quarter, it still implies like a pretty big step-down in margins in the fourth quarter versus what's been really solid like 2Q, 3Q performance despite the top line challenges. So I'm just wondering if there's anything else there in the fourth quarter aside from just comping against that road in that would be driving that margin down so much.

Richard Westenberg

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

A

Yeah, nothing particularly of note. What I would say is the biggest driver on a year-over-year basis in terms of top line and margin, I know you're talking about the Q4 specifically, is regards to the unfavorable comparison relative to the impact of the channel – favorable channel inventory build that we experienced in Q4 of 2024. So that is really the biggest driver from a year-over-year basis.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Richard Westenberg

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

A

Thank you.

Operator: Next question will be from Sam Reid at Wells Fargo. Please go ahead.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Thanks, everyone. Wanted to touch on Plumbing price in a little bit more detail, the 3% you reported. Could you just characterize kind of where that landed relative to your expectations? I know you had obviously a larger price increase in the market. So just curious kind of what you got on a realization standpoint versus what you were expecting to get. And then as you look to the fourth quarter, does the guidance contemplate any step-up in Plumbing price sequentially? Just want to maybe understand that Q4 dynamic as well on price in Plumbing. Thanks.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. Sam, this is Jon. Maybe I'll start and then Rick can jump in as well. I would say that pricing in Plumbing primarily played out as according to plan and what we expected. If you think big picture, obviously, significant increases in tariffs versus what we thought at the beginning of the year. And the team, particularly at Delta, which is the most impacted business, have done really a remarkable job of mitigating tariffs.

And it really starts with making sure that we optimize our footprint. We've been doing that over time. We have a 40% or 45% reduction versus 2018. We'll continue there, working with our suppliers on concessions, looking at our own cost structure and making sure that we optimize that. And ultimately, as the last resort, we will take pricing. And we did take pricing throughout this year. I would say it's executed according to plan. And we'll continue to look at our – what we need to do as we move into the coming year as well.

In terms of Q4, I'll let Rick cover that.

Richard Westenberg

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

A

Yeah. Sam, in terms of sequentially, as you would expect, our mitigation actions take hold over time really from a pricing, cost reduction and sourcing standpoint. But you would expect that our pricing being one of the levers to continue to get increased traction over time. And I guess I'll leave it at that.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

No, that helps. And then one more Plumbing-related question here. You called out strong Delta performance in two channels, e commerce and trade. I might have missed, but how did Delta perform in Home Center? And perhaps can you talk through kind of how you trended in Home Center relative to the broader category? Thanks.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah, absolutely. So, Delta in particular had a very strong quarter driven by e-commerce where we saw nice growth. Our wholesale channel grew kind of low-single digits. And we saw relatively flat, maybe slightly down performance in retail. And as we look to the coming year, we're excited about the plans that we have coming. And we believe that we'll be driving even stronger results in retail as we hit 2026. But no major bogies from a Plumbing standpoint. And again, strength in e-commerce, wholesale, and then relatively flat in retail.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Appreciate the color. Thanks, guys.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Next question will be from John Lovallo at UBS. Please go ahead.

John Lovallo

Analyst, UBS Securities LLC

Q

Good morning, guys. Thanks for taking my questions. There's a couple of factors impacting the back half. One of them you talked about on the inventory side. But just wanted to get a little bit more clarity, if I could, on the lower employee-related costs that are not expected to repeat in the back half. So curious what was the third quarter impact of that and what's expected fourth quarter impact?

Richard Westenberg

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

A

Yeah, John, you're referring to comments that we made in the Q2 call, correct?

John Lovallo

Analyst, UBS Securities LLC

Q

Correct. Yeah.

Richard Westenberg

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

A

Yeah. So from an employee-related, yeah, you're correct. We did have a favorable benefit in Q2. We continue from a cost perspective to be very disciplined on cost, particularly given the current environment, and managing people costs as well as other costs that continue to be a priority for us. So we didn't have a repeat of the onetime item, so to speak, that we benefited from in Q2. But suffice it to say, we're continuing to drive efficiencies, cost reductions, etcetera, throughout the business just to drive operational efficiencies.

John Lovallo

Analyst, UBS Securities LLC

Q

Okay. And then maybe just to follow-on to that, maybe outside of some of the tariff mitigation actions, what are some of the cost savings initiatives being taken in both segments to help kind of lower the cost basis? And what do you expect for the impact of that on a go-forward basis?

Richard Westenberg

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

A

Yeah. So, John, we continue to, I know you've heard us talk about before, leverage our Masco Operating System to continue to drive productivity and efficiency. And so that is productivity in our plants, supply chain efficiencies, procurement cost savings. I know we talk about tariff mitigation, but we also are working on driving cost efficiencies throughout our sourcing footprint. We talk about automation, VA/VE. And in this year in particular, we're looking at more austerity measures as it pertains to head count and discretionary spend. So, really a combination of all those factors. And it's not isolated to a particular segment. It's really across our businesses.

John Lovallo

Analyst, UBS Securities LLC

Q

Got it. Thank you, guys.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Next question will be from Trevor Allinson at Wolfe Research. Please go ahead.

Trevor Allinson

Analyst, Wolfe Research LLC

Q

Hi. Good morning. Thank you for taking my questions. You mentioned seeing some input cost inflation – more input cost inflation you expected in Plumbing, call that metals. Can you just put some numbers around what inflation rates you're seeing in your Plumbing business in the third quarter and what you're expecting for the fourth quarter?

Richard Westenberg

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

A

Sure, Trevor. It's Rick. So, yes, we are seeing some upward pressure, particularly on the copper input. And as you may recall, in Q2, I believe it was at a record high, at least on the COMEX. So it continues to be a headwind for us from an overall input perspective. And we continue to manage it from a cost standpoint. But ultimately it's – to answer your question, it was a low-single-digit inflationary impact in Q3 in Plumbing, and we expect a similar low-single-digit inflation for the calendar year for the Plumbing segment.

Trevor Allinson

Analyst, Wolfe Research LLC

Q

Okay. That's helpful. And then a question on DIY paint, obviously been weak for some time now after being very robust during the pandemic. Now we've had several years of DIY paint declines. Can you talk about where you think we are in terms of pull forward versus deferral? And do you think DIY paint is a category that can get back to growth in fiscal 2026? Thanks.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. Trevor, this is Jon. We really like our DIY paint business. Obviously, the strength of Behr over time. DIY paint correlates heavily to existing home sales. And as you know, existing home sales are at near three-decade lows right now. And if you think about it, it's pretty simple. When you go to sell a house, you typically paint it. When you buy a house, you typically paint it again. So, without existing home sales moving at the pace that they have historically, that's really put a dent in the market. We expect the long-term fundamentals to get better for sure as existing home sales free up and start selling at more historical rates. I think consumer confidence and interest rates will help with that.

And at the same time, we're excited about our PRO business. When you think about the upside that we have there, we have a relatively low share. We've grown nicely over time. And it's approaching nearly 50% of our business at Behr. So, again, we think that we can continue to drive DIY. And at the same time, we think there's a significant opportunity on PRO as we work with our retail partner to really maximize that.

Trevor Allinson

Analyst, Wolfe Research LLC

Q

Thank you for all the color and good luck moving forward.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Richard Westenberg

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

Great. Thank you, Trevor.

A

Operator: Next question will be from Susan Maklari at Goldman Sachs. Please go ahead.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning, everyone.

Q

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

Morning.

A

Richard Westenberg

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

Good morning.

A

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Good morning. My first question is going back to Delta, you cited the strength that you're seeing in e-commerce and the wholesale channel there. Can you talk a bit about what is driving that strength, the outlook, the ability to sustain that? And what that could mean for volume and price/mix in the Plumbing segment next year if the macro does stay tougher?

Q

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

Yeah. So this is Jon. Maybe just a little color on Delta. As I mentioned, really pleased with that team and the results that we're driving. I think it starts with they do a great job of building the Delta brand as well as the Brizo brand and all the different brands in our portfolio, and really making them stand for something with end consumers. Innovation has been a big part of the Delta story. So our vitality rate, which is new products launched over the last three years, is at 25%, which we think is industry leading, and we'll continue to drive that and drive even more innovation as we move forward.

A

And then really developing great capabilities from an e-commerce standpoint, we believe that we're growing share in that channel at a pretty significant rate just due to the capabilities and really the customer insight that we have with different retailers and different e-commerce customers in that channel. So that team is really firing on all cylinders. We would expect that momentum to continue as we move into fiscal 2026.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Okay. And then turning to capital allocation, you mentioned that you are increasing the outlook for returning cash to shareholders by \$50 million for the year. Can you talk a bit about the timing of that? And also what you're seeing in terms of other uses of cash, such as the M&A environment and the potential there?

Q

Richard Westenberg

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

A

Sure, Sue. It's Rick. Yeah, as you mentioned, we did increase our expectation for cash available for share buybacks or M&A activity from about \$450 million to \$500 million. A big component of that was the favorable cash tax benefit from the recently enacted tax bill. So that was a favorable impact. And we are increasing our cash available for share buybacks and M&A accordingly. What I would say is, as it pertains to in terms of timing, through the first three quarters of the year, we've returned just over \$350 million to shareholders. And so, you could envision that about \$150 million remains for the fourth quarter.

As it pertains to M&A activity, no change in terms of our overall capital allocation framework and our strategy in that regard. We continue to cultivate a pipeline of opportunities focused really on bolt-on opportunities and nothing to report at this time, but certainly something that we look at as part of our overall growth algorithm. To the extent we do not have an opportunity this year, you would expect us to utilize that cash for ongoing share repurchases.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you for the color and good luck with the quarter.

Richard Westenberg

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

A

Great. Thanks, Sue.

Operator: Next question will be from Phil Ng at Jefferies. Please go ahead.

Margaret Grady

Analyst, Jefferies LLC

Q

Hey, guys. This is Maggie on for Phil. I guess, first, just maybe to ask the Plumbing pricing question a little differently. It was kind of surprising to see a similar pace, that 3% in 3Q similar to 2Q, just given the tariff mitigation efforts and the magnitude of pricing you have out there. So are you seeing more pressure from competitive dynamics or just pricing fatigue from customers? Maybe just walk us through some of the puts and takes there.

Richard Westenberg

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

A

Sure, Maggie. It's Rick. So I think Sam asked a similar question from a sequential standpoint. So our price, as you articulated, was about 3% favorable from a Plumbing segment perspective, and that is as our pricing continues to gain traction in the market. So, I'm not going to get into specifics on Q4 at this point, but suffice it to say we're gaining traction.

As it pertains to the overall dynamic, it's something that we're monitoring very closely. As Jon articulated, there's a number of levers that we pull with regards to our tariff mitigation and to address our margin headwinds, which are sourcing footprint changes, cost reductions and as necessary pricing. So we will leverage the pricing component of that, but it's something that we do in a very targeted way, and we look for a balanced approach overall.

But I guess the bottom line is we continue to see pricing as a favorable impact on a year-over-year basis, but it's largely going to be driven based off of our need to mitigate the tariff impacts as well as our assessment of the overall market dynamic.

Margaret Grady

Analyst, Jefferies LLC

Q

Got it. And are there any nuances to call out between channels in terms of realization or acceptance by channel? And then thinking ahead, you have this January price increase announced out there. What have you seen this year that's kind of influencing how we should think about realization on that in 2026?

Richard Westenberg

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

A

Yeah. So, Maggie, we're not going to comment with regards to specific channel pricing performance. That's just something that we manage with our customers. As it pertains to anything that might be out there as it pertains to future pricing, I'm not going to really comment on that either. That's something that would be kind of in development. And so, again, I would just take a step back and just look at it from a standpoint of pricing continues to be one of the levers that we deploy in terms of mitigating our tariffs as well as other impacts such as commodity inflation, etcetera. And that's something that we're going to continue to focus on and execute against.

Margaret Grady

Analyst, Jefferies LLC

Q

All right. Thanks, guys.

Richard Westenberg

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

A

Thanks, Maggie.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Next question will be from Adam Baumgarten at Vertical Research Partners. Please go ahead.

Adam Baumgarten

Analyst, Vertical Research Partners

Q

Hey. Good morning, everyone. Just on the timing-related issues in builders' hardware, which is obviously a headwind in the third quarter, I think you mentioned that maybe it wouldn't be much of an impact for the full year. So would that imply that 4Q those shipments kind of go through and therefore the full year won't be as impacted?

Richard Westenberg

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

A

Yeah. Adam, directionally that is correct. So it was a Q3 adverse impact. But for the overall year, we don't expect it to be a significant impact. So, I guess, that would be a fair conclusion.

Adam Baumgarten

Analyst, Vertical Research Partners

Q

Okay. Got it. Thanks. And then just in Plumbing, just on China, you talked about that being a headwind. Seemed like maybe a bigger headwind than it's been in prior quarters. If you can maybe kind of walk through what you're seeing on the ground over there.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah, Adam, for sure. So the market itself has been challenged. And I think obviously, you read about the housing market and what's happening in China. But at the same time, I think local players have become much stronger as well. So, between those two things, the market itself is challenging and I think the competitive situation is challenging as well.

I'll tell you that we feel like we are holding up at least as well and probably better than our other major global competitors that are in that market. We still like that market. It's a significant market for us, and we think over time we'll be able to get back to growth. But it has been a bit more of a headwind certainly in Q3 than what we had seen through the first half of the year.

Adam Baumgarten

Analyst, Vertical Research Partners

Q

Great. Thanks a lot. Best of luck.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Next question will be from Keith Hughes at Truist. Please go ahead.

Keith Hughes

Analyst, Truist Securities, Inc.

Q

Thank you. Just a question on the inventory reserves you discussed in Plumbing. Is that – are you writing off obsolete inventory or what specifically is going on? And how much of a [ph] dollar hold is that (00:49:26)?

Richard Westenberg

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

A

Yeah, Keith. It's Rick. So as part of our normal process, we review our balance sheet reserves on a quarterly basis, as you anticipate. We make adjustments quarter-to-quarter based off of the assumptions in place at the time. And it's really driven based off – this quarter based off of the overall market environment and really the slow pace of the industry sales, etcetera. And so, we do have adjustments as you would expect kind of quarter-to-quarter. This quarter was bigger than typical. So, we've called it out, particularly given it hit our Plumbing segment and one of the drivers in terms of our margins. Although we wouldn't expect this to occur kind of on a regular basis, it was something that we felt appropriate to call out for Q3.

As it pertains to overall magnitude, I'm not going to give you a specific dollar amount, Keith, but I could dimension it a little bit for you. And I would say, on a year-over-year basis, if we look at whether it's operating profit or

operating profit margin, it represented about a quarter of the performance impact on a year-over-year basis. That helps?

Keith Hughes

Analyst, Truist Securities, Inc.

Q

Okay. Okay. And is there a cash offset to this that comes or is this a noncash element?

Richard Westenberg

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

A

This would be noncash.

Keith Hughes

Analyst, Truist Securities, Inc.

Q

Be noncash. Okay. All right. Thank you.

Richard Westenberg

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

A

Sure.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator Next question will be from Eric Bosshard at Cleveland Research. Please go ahead.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Thanks. Good morning. Two follow-ups. On the DIY paint, I understand the softer sales, the down [ph] 79% (00:51:02) and the overall R&R market that's not that bad, that you're linking that to housing turnover. I'm curious if strategically there's anything different to do in this business to drive better growth. Obviously, you're having success with the PRO initiative at Depot. But on the DIY side, is there anything strategically different to do to stimulate better performance?

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. So this is Jon. And a good question. I think at the end of the day, I think the biggest thing we can do to drive our business, continue to drive a better brand. And Behr Paint has amazing quality and we offer great value as well. And I think we can get even tighter in terms of our communication of why we have such a great proposition for our consumers.

I think the other thing we can do is continue to innovate. As I mentioned in the prepared remarks, we're launching some innovation we're excited about, some plant-based paint. That's obviously very much in trend with younger consumers and millennials, and we think that'll be a positive for us as well. We are with the right partner that, obviously, continue to do well in the market. We continue to work with them to make sure we maximize our sales. I think for us, though, again I think getting tighter on our messaging from a brand standpoint really around value and quality, because we think by far we've got the best proposition in the industry.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Okay. And then for Delta, your comments were optimistic about retail 2026 growth. I'm curious if there's anything in the business or from a market share perspective that informs that? Or if this is more a function of lower rates, and at some point, consumers will spend money just trying to figure that out?

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. Great question. As you would likely imagine, we have a good sightline into 2026 in terms of our plans with our major retailers. And I – without going into the details, we feel really great about where we're going to be from a distribution standpoint. We feel really good about our innovation that we're launching as well. And we would fully expect to have a very strong year in retail in 2026 as a result of those plans that are in place.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Thanks.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Any further questions, Eric?

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

No, thank you. I'm sorry. Thank you.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Next question will be from Rafe Jadrosich at Bank of America. Please go ahead, Rafe.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thanks for taking my questions. I wanted to just get a little bit of a better understanding about the timing of when tariffs like hit your P&L and the cadence of the mitigation. So, obviously, you have to work through some of the inventory that maybe came in pre-tariffs. Like, how much of the impact is being like in your P&L today? And how do we think about that going forward? And then sort of same question on like the mitigation that you're planning, how do we think about the cadence of that?

Richard Westenberg

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

A

Yeah. Rafe, it's Rick. So as it pertains to the cadence of the tariff impact, as we've articulated in prior calls, that we fully expect most of that impact. We know that most of the impact is going to occur in the second half of the

year. And so that's why, as you saw in Q3, the tariff impacts really get kind of traction in our P&L. We did see some in Q2, but the vast majority is in Q3 and Q4. As articulated, we did have incremental or additional tariff impacts in Q3 given the temporarily elevated China tariffs at 145%. That translated into a \$15 million additional tariff impact in Q3. Now, that is hopefully onetime in nature as it pertains to the tariff dynamic.

As you think about on a prospective basis, that's why we give the annualized tariff impact. And our annualized tariff impact is \$270 million. So you can think of that as a run rate basis on a calendar year basis. We saw, again, most all that in the second half. Thus the \$150 million in the second half of the year inclusive of the \$15 million that I talked about. But \$270 million is how we think about it going forward.

I would caution, of course, that obviously we continue to be in a dynamic environment from a geopolitical standpoint. And so that estimate of \$270 million is based off of really a static picture of not only the tariff environment, but our footprint. And we'll continue to provide updates in terms of our exposures as well as our tariff impacts as we move quarter-to-quarter.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Q

Got it. Okay. And then would you – are you – is the plan to fully mitigate in 2026? And then, of those, you listed a few things that you're shifting to supply chain pricing. Like, how do we think about the timing of that of when you would be planning to fully mitigate?

Richard Westenberg

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

A

Yeah. So, with regards to mitigation actions, those are all underway, and we're pursuing them very aggressively and expeditiously. And so, each exposure has a different time line. But ultimately, we would expect to, as we said before, offset a large part of the tariff impact this year, not all, but a large part. And really, our goal is to ultimately offset the tariff impact, not only from a dollar perspective, but also from a margin standpoint based off of the tariff environment as we see it today. And we would expect – and we'll provide more color on that in our February call in terms of our expectations for 2026 specifically.

But one of the largest levers of our tariff mitigation strategy is our sourcing footprint, and that takes some time. It continues to be an exercise that the team has done an excellent job in terms of reducing our exposure specifically to China. As mentioned earlier in the Q&A section, our exposure to China is \$450 million, but that's down 45% from levels of 2018. And we continue to be on that glide path and accelerate that. So we'll provide an update in terms of what that looks like in 2026 in our February call. But suffice it to say, we're continuing to really execute towards the tariff mitigations and offset the dollar amount as well as margins over time, and we'll provide further updates in February.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Richard Westenberg

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

A

Sure, Rafe.

Operator: Next question will be from Collin Verron at Deutsche Bank. Please go ahead.

Collin Verron

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good morning. Thank you for taking my questions. Only just one for me, I guess, on the Plumbing side of the business. Can you just talk about how long you think this soft demand environment will really last here? And I guess, like, if you're looking out over the next 6 to 12 months, like what specific factors would you be looking for that would get you a little bit more excited about the demand environment?

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Collin, it's Jon. I'm relatively new to this industry, as you know, but it's been consistently go out and talk to our customers, channel partners, suppliers. I think everyone feels like the rebound will come. The crystal ball, we don't have a crystal ball. We can't tell you when that is. But all the macro factors remain incredibly positive. If you think about what drives R&R activity, and it's really about home equity levels. We know that they're at record highs right now. We know the age of the housing stock in the US is ripe for renovations, remodels. In fact, over the next few years, something like 20 million more homes will become into that prime point to be remodeled. That's 20 to 40 years of age.

And then I think it's about consumer confidence and interest rates. So I think if we see interest rates continue to tick down, consumer confidence in their economy increase, and we'll see consumers tap into their home equity funds and start those remodels that they've been deferring. So we're very confident about the long term. Obviously, we don't have a crystal ball. I can't predict exactly when that will happen.

As we sit here, we're not going to talk too much about 2026 or certainly give guidance, but I think we would expect to see a gradual improvement in our markets as we move forward into the coming year.

Collin Verron

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you for the color and good luck.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Our last question comes from Anthony Pettinari at Citi. Please go ahead.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. I just had two quick ones on Plumbing. I guess, first, how would you characterize the performance of kind of your best brands? You talked about the strength in Delta. I'm just wondering how Brizo and hansgrohe are. Are they still kind of outperforming the good, better, or is there like any change in that dynamic?

And then I guess, just second question, sauna, wellness, smaller part of the business, but I'm just curious how that category is performing in what's obviously been kind of a tough market. And do you see the growth opportunity there organically or inorganically maybe different than you did 6 months ago, 12 months ago?

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Yeah, absolutely. In terms of Plumbing, we really like the way our brands are performing. When you look at upper premium and luxury, we've got brands like Brizo as well as Newport Brass, Axor, which is our global luxury brand. And really we see a bifurcation in terms of the market. We're seeing the upper income consumers hold up relatively well. And actually, we're growing fastest in the upper premium and luxury, so really like the performance there.

From a hansgrohe standpoint, really like the way that they're performing around the world. Germany in particular, the home market, they're growing nicely, taking a tremendous amount of share and really we believe growing share in most markets around the world. I mentioned China is definitely the soft spot for hansgrohe and that's something we'll continue to work on for sure. So, really like the way they're performing around the world from a Plumbing standpoint.

In terms of Watkins, that's been a business that again we're really excited about the long-term opportunity for. When you look at wellness, very much being on trend from a consumer standpoint. The low household penetration of our categories, if you think about hot tubs, only has five or six household penetration in North America, sauna has only 1% household penetration. And if you listen to what's happening in culture and society, you see and hear a lot of buzz around both of these, and particularly saunas are on fire, right?

So we think there's a tremendous opportunity for us. We are the market leader in hot tubs in North America. We continue to push our advantage there. And we're a leader in sauna, and I think that's an area that we'll continue to drive as we move into the future. We think there's a lot of tremendous upside for that business for the short and long term as well.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful.

Jonathon J. Nudi

President, Chief Executive Officer & Director, Masco Corp.

A

Thank you.

Operator: Thank you. At this time, we have no other questions registered. I would like to turn the call back over to Robin Zondervan.

Robin L. Zondervan

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

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

Operator: Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we ask that you please disconnect your lines.

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