22-Feb-2024

Masco Corp. (MAS)

Barclays Industrial Select Conference

Copyright © 2001-2024 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

OTHER PARTICIPANTS

Matthew Bouley
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Matthew Bouley
Analyst, Barclays Capital, Inc.

Okay. Okay. All good, okay. Good morning and welcome to day two, 41st Annual Barclays Industrial Select Conference. Pleased this morning to have Keith Allman, President and CEO of Masco Corp.

So for – and I'm Matt Bouley, Barclays US Homebuilding Products Analyst. So, for those of you who've been in the conference for the past day or so, we're going to start with the audience response question. So, if you could kind of please use the keypad in front of you we'll run through them quickly and then we'll dive right into the Q&A. So, if you could bring up the first question, please.

Do you currently own Masco, overweight, market weight, underweight or no? And the audience is weighted to new investors, okay.

Next question, please. General bias towards Masco right now, positive, negative or neutral? And it's a mix of positive and neutral, okay.

Next question, please. Through-cycle EPS growth for Masco relative to peers: above, in line with, or below? Weighted towards in line with peers from the audience.

Next question, please. What should Masco do with excess cash: bolt-on, larger M&A, share repo, dividends, debt paydown or internal investment? Weighted towards share repurchase. Okay.

Next question. What multiple of 2024 EPS should Masco trade: range from below 10 to above 21? And the audience is weighted towards 16 to 18. Okay.

Next question. Most significant share price headwind facing Masco today, core growth, margin performance, capital deployment or execution strategy? Growth is what the audience sees is the most significant headwind. Okay. So that's the last question.

Copyright © 2001-2024 FactSet CallStreet, LLC

Keith, thank you for being here. So a high level question, especially for those new to Masco in the audience. In your time as CEO, you've obviously undergone a lot of portfolio shifts, maybe towards more smaller ticket, kind of resilient R&R type categories. Just curious if you can kind of walk us through the history and what you've done to the Masco portfolio and kind of where you've positioned it today?

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Sure. Thanks, Matt, and thank you for having me and thanks to everybody in the audience for your interest in Masco. I appreciate it.

Yeah, I was just talking to a friend, this past week was my 10th anniversary in the seat, so we have seen some changes over that decade and they've been purposeful. And we've really started with an expectation of wanting to appeal to an investor who wants to invest in housing, but not have to depend that investment based on timing of a cycle.

We wanted to appeal to an investor who wanted to make a play in the space and be able to count on double-digit earnings growth through cycles. And so, to do that, we focused on a couple things. We focused on branded building products. We focused on smaller ticket, less cyclical, higher margin businesses.

So what that meant for us was the need to do some portfolio changes. So we had a significant business that was in home building. We are a supplier to single-family home building and we spun that business off to our shareholders, our installation services business and that has done fabulously well for the shareholders.

And then we had a couple of big ticket, highly cyclical, somewhat lower margin businesses in cabinets and windows that we felt that strategically we could improve with our Masco operating system, improve their cash flow and their margins, and then sell those off to get us and we did that. And that again was very successful for the shareholders.

And then focused ourselves on a portfolio that was smaller ticket, repair and remodeling. We're about 85% repair and remodeling, smaller ticket higher margin, more reliable cash flows. And then throughout that transition had a very consistent capital deployment strategy of returning cash to the shareholders in the form of a programmatic and opportunistic share buyback program and executing against bolt-on acquisitions, mainly in our paint and plumbing business to produce that and to attain the double-digit EPS growth through cycles.

And when you look at, how we've done against that commitment from 2019 through the COVID years, through the massive challenges around commodity inflation and interest rate escalation, and to where we finished in 2023, we had a 14% compounded annual EPS growth. So I believe we're delivering on that commitment. And a big part of that was the transitions that we executed, that the team executed with the portfolio.

Copyright © 2001-2024 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Great. Perfect place to jump off there. I think if I draw that out one more year, we're looking at 2024 at least per your guidance where you're guiding to EPS growth and a flat to down R&R market. And so that's how you set up the portfolio. So I guess the question is around that, I'm curious sort of your view of the overall state of the US consumer. We'll talk about R&R demand.

From your perspective, is there a dependency on an existing home turnover recovery or is it the type of thing where, hey, look, we've got home price appreciation and things like that that supports R&R investment, sort of. What's your view on what it's going to take to see that R&R market recover?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

Thanks for the question, Matt. I would say that upfront that our portfolio is about 80/20 in terms of US and international. So international is a component of our overall view of the company and how we think will perform. Speaking specifically to the US consumer and what we're seeing, I would call it a normalization of demand. We're calling for 2024 to be flat to down slightly overall in our markets and our performance will be slightly better than that with share gain.

In Europe, we are seeing a stabilization, but I would say that stabilization is, let's call it roughly three quarters behind what we're seeing in the United States. I was pleasantly surprised this past year with the robustness in Europe. And we are seeing normalization of demand. However, it's a little bit early to call that, and it's certainly, in our view, not as stable as what we're seeing in the United States.

In US demand, there was not for us a significant inventory rebalance in 2023, nor do we expect such in 2024. So pretty consistent demand. We think our inventories are in place in the channel where they need to be. We believe that fundamentally there will not be a material, and nor are we seeing a material – expect a material change as it relates to the price cost dynamic. And by and large see somewhat of a stable 2024 where in our estimation it will be a little slower in the first half and then pick up in the second half.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Okay. Got it. So I guess on that note, we'll kind of touch on the guide in more detail. So plumbing, I think you guided, the same across the portfolio, right, to kind of plus or minus low-single-digits from a growth perspective. Any kind of color around, I guess, I'm curious around the channels, number one. I think you called out wholesale was a little stronger in the recent quarter. So how are you kind of thinking about wholesale versus retail and plumbing, and then of course, North America versus international?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

Yeah. I would say similar performance across channels. It's very difficult to specifically and minutely understand Pro versus DIY in our markets because in wholesale there's no – while you have some Pro rebates where you can tell where someone is a Pro, it's difficult sometimes to say if that Pro was buying for R&R, for new

Copyright © 2001-2024 FactSet CallStreet, LLC

construction, if there's a person that's going in there and purchasing for an R&R or a DIY, rather. So roughly speaking, our business is about 50/50 we believe DIY and R&R.

And when we look at the demands across our products where we have a heavily skewed DIY coatings business and then more skewed Pro plumbing business, we really don't see a material difference in the demand as it relates to channels or Pro or DIY versus Pro or wholesale versus retail.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. And just on that topic, before I continue on the guide, I think you mentioned on the call that one of your initiatives this year was around gaining share in the wholesale channel. And I'm not sure we really got to go in a lot of detail on the call. So I'm curious kind of what did you mean by that? What's kind of the opportunity you see in wholesale plumbing?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

We have a target in terms of where we put our efforts as it relates to how much effort goes into builders and where they go, where that goes in terms of big builders or say [ph] number 20 or 30 (00:11:52) and below sort of thing. So, smaller builders. That hasn't changed. We're focused more on the smaller builders. The wholesale channel and where we find our most success is in the showroom business. That's good business for us with our portfolio of brands on the higher end, both on the higher end of our core brand, which is Delta Faucet in the US, and Hansgrohe in Europe, [indiscernible] (00:12:20) Hansgrohe also sells in the US.

And then on the high end, with our Brizo brand, AXOR brand, Newport Brass, there's a number of different higher end brands. So building advocacy in the showroom channel with that portfolio of brands is very successful and has a high return for us on investments and the focus we put in terms of our people. So, really driving that showroom experience and the advocacy with the showroom associate and backing that up with a good assortment and an innovation pipeline both in terms of functionality and design, is something that is an area of focus and we believe is going to drive share gain more so than, say, targeting a new construction, significant change to our mix.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Right. Okay. Got it. That's helpful. So maybe jumping over to – just kind of sticking with the top-line, but jumping over to decorative, we'll take it piece-by-piece because there is a lot to talk about on Pro but DIY paint. I think the guidance is for kind of down low single-digits this year if I have that right. So, just kind of remind us where we are from an industry perspective, DIY volumes, relative to kind of pre-COVID. I know you've got some new capacity coming online. So, kind of what's the opportunity for that business to eventually recover? What are you kind of looking for DIY volumes to recover?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

When you look at volume and by volume, I'm talking unit volume rather than – so take price out of it. And you go to 2019 and you put what I would broadly say is historical volume growth on those numbers from 2019 to 2023. We're doing very well overall in our business. So we're back to those normalized volumes 2019, but plus normalized growth, but for DIY paint.

Copyright © 2001-2024 FactSet CallStreet, LLC

And prior to 2019, DIY paint, we're seeing, pardon me, a slight shrinkage in their business. Overall paints in the consumer in repair and remodeling doing very well. DIY, call it a 1% sort of reduction in volume over time. We saw COVID play a unique role in DIY, where we had a massive spike when consumers were fearful of closing their house. And then that came down and Pro grew significantly in 2021 as consumers were more comfortable.

Fundamentally, we're seeing that being a little bit more challenged in terms of unit volume in DIY however, and that's driven principally, we believe to the effect of the baby boomers, which are very robust, DIYers. And they are now turning more towards Pro opportunities for obvious reasons.

Having said that, we also believe that the millennial cohort, which is larger in absolute numbers than the baby boomers, that they're DIYers. And we see that from the basic research that we as well as others have done for us. And they're not one-timers. They're coming back for multiple, there's [ph] families form (00:15:30), which we know that's happening. There is a tendency, since you are spending more time at home to do those types of projects and the small ticket, particularly paint, but also in the plumbing aisle where there's not electricity associated with it, tends to be an easy fix and relatively low ticket.

And so we think that there will be a transition as baby boomers form homes and overall back to your specific question on paint, we see that stabilizing but probably won't be a particular growth segment as it relates to the overall paint volume.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

So obviously you've guided Pro to be up – Pro paint to be up low single-digits this year. I mean, it sounds like what you're saying. I mean, clearly, Pro and DIY have diverged for several quarters at this point. And, you're attributing a lot of that to the kind of pull forward immediately post-COVID. And that makes a lot of sense.

My question is, is there anything else around as you think going forward, should we assume Pro and DIY will continue to diverge, i.e. Pro will continue to outperform DIY? Would you say that's kind of a broader consumer shift towards do-it-for-me, something like that or is it just, hey, look, our channel partner really wants to continue to invest in Pro. That's the big driver. How do you kind of think about the future of Pro versus DIY?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

In absolute terms our expectation is that Pro paint will grow at a faster rate than DIY paint in the foreseeable handful of years. I don't see a broad trend towards do-it-for-me away from Do-It-Yourself. The Do-It-Yourself consumer is, as I said, strong. There's some dynamics with baby boomers shifting more towards Pro and millennials shifting more towards DIY, but as I said, fairly stable and we expect that across our portfolio to continue. We're not banking on a material shift in Pro portion of our mix.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

And so I guess sticking with the Pro, over the past couple of years, you did gain a lot of market share and then here we are in couple years later and you never give it back, right? So you kind of structurally increased your share in Pro paint. I guess how do you kind of view your positioning of your Pro paint product relative to the competition, right, because when you think about Pro painters out there and kind of the legacy of going to paint stores and all that relative to going to a home center, how do you kind of think about what could be happening amongst Pro painters and their willingness to buy at Home Depot?

Copyright © 2001-2024 FactSet CallStreet, LLC

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

Our value proposition is very strong for the painter, who also does other things, or the Pro who also paints, however you want to look at it. And our value prop is based on a very productive partnership that has been going on. I think we're the second most tenured supplier, consistent supplier to Home Depot. We were supplying Home Depot when they had three stores and we've been with them a long time and that relationship is extremely valuable.

And it's based on the fact that we are the best solution for each other and we realize from top down in both organizations that we couldn't have a better partner. And that goes both ways, and it's very lucrative for us in terms of our performance with regards to the Pro who is shopping at Home Depot because at the end of the day, time is money for the Pro and it's a more efficient solution to be able to buy across a Pro rewards program, across efficiency in terms of how many invoices the Pro gets and of course, the time because they're in the store.

So that's more on the mechanics of what a Pro is interested in with regards of specifically what's in the can and how the consumer and the Pro feel about that. We have the top five out of six places in quality from a very reputable magazine that rates quality, let's put it that way. And that's frankly unheard of. So our quality is first place, full stop.

In terms of our brand across any dimension you look at it with respect to recognition or equity and what that brand stands for, and it's third-party evaluated same story, number one. Service levels a repeat, independently assessed the experience that the consumer has. So brand, service, quality, very strong. And you're exactly right that there is a strong pull for the relationships associated with the paint store.

However, when you have an opportunity to gain share that was really we earned through our supply chain excellence and ability to supply in a constrained environment, that's driven by the focus that we have. We are not in other spaces. You often talk about the focus and really stellar companies talk about their focus of 80-20 and the impact of putting an inordinate amount of resources onto the few customers, consumers' product assortment that matter.

We do that on steroids with our model and we were able to gain share because of that. And we've kept it because when the Pro who tries us, they like us and they like us not only in terms of consumer pull and the quality and the can, but also the fact that when you look at the true as applied cost, we're extremely competitive.

So our relationship with the Home Depot is fabulous. It's fabulous, frankly, [ph] I eyeball with myself (00:21:38) and the CEO and down to the merchant level and to the store level. And that's really given us the ability to focus on what matters to the Pro, and our intent is to continue to gain share.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Great. Thank you for that comprehensive answer. A couple on the margin side. In the near term, we also want to get to the long term margins as well. So the kind of near-term margin guide, I think you spoke to sort of flattish margins in the first half. Maybe that gets better in the second half. Sounded like it was sort of volume dependent. My question is, over the second half of 2023, I mean, volumes were down and you still expanded margins, there's clearly a lot going on in the productivity side and all that. So I guess as you kind of just zoom into Q1, Q2, assuming volumes are still down, why wouldn't the margins continue to improve on a year-over-year basis? What would actually kind of cause that flattening?

Copyright © 2001-2024 FactSet CallStreet, LLC

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.
A

Well there's a – are you talking, Matt, paint specifically or are you talking about the whole performance of the whole company?

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Yeah.

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.
A

So we believe based on the trajectory that we saw coming out of 2023 and how the consumer at POS is performing in our belief and not a significant amount of headwind or tailwind in terms of the inventory position, that 2024 is going to be somewhat of the tale of a couple halves. First half, we expect to be a little bit challenged and we expect to see volumes building in the second half.

With regards to price cost, we expect that to be neutral across our segments. And as we get into that incremental volume, and as we see our productivity pipeline and what we'll deliver, we see it a little bit more in the third and fourth quarter. So roughly consistent, but a better second half in terms of margin than the first half.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Got it. Okay. I think there was also a comment on the call around obviously you have a unique relationship with your channel partner in paint and speaking about price specifically. So just kind of what's the outlook for price on the paint side this year given what you're seeing in raw materials?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.
A

So I'll answer that in two forms. One, in pricing. We have a relationship where basically commodity is priced dollar for dollar. So, in an escalating commodity sort of environment, margin on that basis tends to take a hit and then when prices go down, they tend to help a little bit. We see pricing as a modest headwind for us in paint specifically based on a little bit of price giveback late in the year last year and the fact that that will be a full year impact next year but price commodity to be neutral.

In plumbing, maybe a little bit of a tailwind as we tend to hold on to that a little bit more. What's really important, I think, for the investment community to understand is the efficiency of our dropdown on incremental volume. And when you map that together with our planned total cost productivity improvements around continuing to do a better job and how we buy and consolidate or buy across platforms and across our business, the pipeline that we have in terms of our introductions of new products and the margins that those will deliver for us, that we will continue to develop margins. And that together with the incremental volume, get me personally and our company the confidence to give the guy that we did for out-year margins?

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Yeah. And that was exactly going to be my next question. And so when we think about bridging from, I believe, kind of 18% consolidated today. And I'm talking about a consolidated number, but on a segment basis, plumbing

Copyright © 2001-2024 FactSet CallStreet, LLC

at 20%, decorative at 19% to 20%. I know the plumbing incrementals are a little bit higher from a volume perspective. So, kind of bridging from today to there, how much of that is due to volume growth, how much is due to productivity? And just sort of what are the pieces that kind of bridge you to that?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

It's a combination of both, slightly more of the majority would come from the dropdown on incremental volume. We dropped down in the range of 30% incremental volume and that obviously is helpful. Our innovation pipeline is continuing to drive favorable margins. And then we have a line of sight and a pipeline of productivity that takes some time to mature, but over time will be a significant contributor to the margin guide as well.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. And then so with – I guess, a final question here. First question we started off talking about the portfolio transformation over the past 10 years, I guess looking forward, are you comfortable with the business kind of as it stands, I'm thinking there's been some M&A in building products of late. Just how are you thinking about your own positioning? Would you ever add another leg to the stool or is it kind of more bolt-ons? So how do you think about that in the portfolio?

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

A

The way our team is thinking about the business is simply how do we create shareholder value? And as demonstrated we're not focused on particularly how big we can get. We're focused on how much value we can create. And I think that mindset is why our equity has performed as well as it has. And we will continue to look at any kind of portfolio changes that can drive positive shareholder value.

With regards to capital allocation, there is no change to our – and there will not be a change in the foreseeable future around how we spend our money and that will be in bolt-ons and paint and plumbing because we believe that while M&A is starting to come back in terms of deal flow, it's still very important that we pay the right price for assets and that they fit strategically, and that best position for us is where we can get synergies on the deal to maintain our stellar return on invested capital. And we'll continue to do that in bolt-on fashion, in paint and plumbing. So no third leg in the plans for us.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Excellent. Well, with that, we always run through a quick 25 minutes. So...

Keith J. Allman
President, Chief Executive Officer & Director, Masco Corp.

Yeah.

Matthew Bouley
Analyst, Barclays Capital, Inc.

...done with.

Copyright © 2001-2024 FactSet CallStreet, LLC

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Thank you.

Matthew Bouley

Analyst, Barclays Capital, Inc.

... good with Masco.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Thank you, all.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Thank you.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.