04-Dec-2024

Masco Corp. (MAS)

UBS Global Industrials and Transportation Conference - Fireside Chat

Copyright © 2001-2024 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

John Lovallo
Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

John Lovallo
Analyst, UBS Securities LLC

All right. Good morning, everyone. Thanks for joining us. Welcome to the 2024 UBS Global Industrials and Transportation Conference. I'm John Lovallo, I'm the senior US homebuilding and building products equity research analyst here at UBS. Very excited to have Masco with us today. Keith Allman, President and CEO. As most of you know, Masco is a leading manufacturer of architectural coatings and plumbing products here in the US and globally.

So, with that, Keith, thanks so much for joining us.

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

Thank you, John. Glad to be here. Appreciate it.

Copyright © 2001-2024 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

John Lovallo
Analyst, UBS Securities LLC

Q

All right. Let's start high level here. And it's been a lot of portfolio changes in your – under your control, insulation business, windows and doors, cabins, Kichler most recently. How do you view the portfolio today? Where are the opportunities you see going forward? And is this the right portfolio in your mind?

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

A

Well, I think it begins with a discussion about our strategy that we started about a decade ago when I came on board in this role. And that strategy is to – was to reconfigure the portfolio so that we were more resilient, less cyclical, higher margin, and more appealing to an investor who wanted to invest in building products but not have the pressure of having to guess the ups and downs of the cyclical nature of our business and be confident in double-digit earnings growth through cycles. That was the strategy.

And so, we've worked hard to accomplish that over time, improving our businesses, selling them at the right time, spinning, as you mentioned, our insulation business often to a publicly traded company, which was very productive for the shareholders. And when you look at our performance as it relates to our ability to deliver on our promise of double-digit EPS growth through cycles, we've done that. So, I would tell you that I'm happy with where our portfolio is. I think it, by design, is achieving the results that we expected. So, I think the portfolio is in pretty good shape.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah, makes sense. And when we think about architectural coatings, and we think about plumbing, there's some very obvious similarities in highly branded, lower ticket, sort of R&R focused. What else do you see in your mind that makes these two a good fit together? What are kind of the synergies that you see?

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

A

Well, I think there's several aspects, some of which you've already stated. But firstly, they're very similar businesses in terms of the fundamental industry drivers, the performance levels that they're able to achieve, the fact that they're consistent with our strategy of stable double-digit EPS growth through cycles in terms of small ticket. They're involved with both small repair and remodeling projects, as well as large repair and remodeling projects.

The businesses leverage our capabilities and our Masco operating system as it relates to, in particular, brand service and innovation. So, they're in the – both businesses are in spaces and have characteristics that enable us to drive improvement with our system. They fit very well with what we do well. And there's a very high level of channel synergies as these products are moved through similar channels that we know very well.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah, that all makes sense.

Copyright © 2001-2024 FactSet CallStreet, LLC

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

Significant synergies and very tight fit.

John Lovallo
Analyst, UBS Securities LLC
Q

Yeah, makes sense. If we think about the Plumbing business in particular, there's been an influx of technology over the past few years, whether it's touchless or things of that nature. Where do you see that sort of evolving, if we look maybe, I don't know, three to five years out, where are the big opportunities?

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

We've had quite a bit of success with our product development funnel, where we aim at and how we understand the consumer and how we're able to provide innovation that serves pain points, that serves points of need for the consumer. So, when we think about our vitality in terms of new products, it's running close to that 25% range. So, we've done a good job of finding those pain points and understanding the consumer and delivering on those. So, for us, it's not so much striving to implement a particular sort of technology as it is striving to understand the consumer and coming up with creative ways that we can meet those needs and, in some cases, very much tech-enabled.

So, our pipeline has a very strong component of the Internet of Things, of connected products, et cetera. But for our – from our point of view, it's more productive to stay focused on the consumer and what they need, like our touch and touchless technology. It's been in the market now for well over a decade. And with our generations in continuous improvement still remains the best in the industry. So, I think more of the same as it relates to consumer focus and using tech where it's able to provide a consumer benefit.

John Lovallo
Analyst, UBS Securities LLC
Q

Makes sense. And then, earlier this year, you put out some financial targets, margins for both segments. And on a consolidated basis, you presumably didn't include or incorporate the sale of Kichler. Are there – is there upside to those margin targets given the sale of Kichler?

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

Well, we have changed, we have integrated the Kichler sale into our 2024 guidance. So, if you look at that change, we went from at 17% to 17.5% as a guide to a full 17.5% guide. So, we moved that up a little bit. We haven't talked about 2025 or 2026 targets...

John Lovallo
Analyst, UBS Securities LLC
Q

Right.

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

...beyond that, if we do make change to those. And of course, for the 2025 guidance, we'll talk about that next quarter when we have our release in sum of the year.

Copyright © 2001-2024 FactSet CallStreet, LLC

John Lovallo
Analyst, UBS Securities LLC

Q

Understood. So, there could be an update to those 2026 targets over time?

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

A

Yes, there could be and we...

John Lovallo
Analyst, UBS Securities LLC

Q

Okay.

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

A

...and if there is, we'll talk about that.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah. Yes. All right. And then, if we think about just the overall health of the consumer today, I mean, obviously, there's a lot of consternation, there's a lot of uncertainty. We're past one of the big chunks of uncertainty with the election. How do you see the consumer as we sit today and as we kind of progress into early 2025?

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

A

I'd – as I've said in the past, I'd characterize it as stabilization. So, we saw some return to growth in plumbing. We saw some in Europe as well. So, overall, I would say, it's stable in Europe. In particular, in Central Europe, we're seeing some stability. The consumer in China remains a bit volatile, I would definitely say that. We have shown growth in China, as our pipeline of project business has been and continues to be very solid. So, our performance is doing well despite historically where that consumer has been on the sidelines.

We do see in our business, which is 85% repair and remodeling, we do see a deferral of spend when we look at what would traditionally be the amount of R&R spend. So, I think, for us, it's about consumer confidence, particularly in our, call it, 85% repair and remodel business. And as consumer confidence starts to turn, that's when we think we'll start to see the benefits in our [ph] end (00:08:25) demand.

John Lovallo
Analyst, UBS Securities LLC

Q

So, there's been some deferral in spend. Would you say that there's been any notable trade-down?

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

A

When you look across the industry, there has been some. When you look specifically at our performance, very little. We had a little bit last quarter, mix – negative impact of mix, but we don't foresee that being a material impact on us in 2024 as we finish the year.

Copyright © 2001-2024 FactSet CallStreet, LLC

John Lovallo
Analyst, UBS Securities LLC

Q

Okay. And I think earlier this year, you also had a forecast for just general R&R to be flat to down low single digits, I believe was the target. And I don't think that that was updated on the most recent earnings call. Any change in how you guys are thinking about that and what are some of the underlying factors that you guys that you kind of incorporate into that forecast?

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

A

No change in terms of the overall guidance of where we see the repair and remodel market. However, we certainly did at the beginning of the year believe that we were going to see somewhat of a tale of two halves where we would have some top line challenges in the overall market, it would be down in the first half slightly; and then we'd – we would return to growth in the second half. And that return to growth in the second half has not materialized, as we expected. So, I would say that the overall market will come in on the low end of our range, as it relates to our R&R take.

John Lovallo
Analyst, UBS Securities LLC

Q

And as you look out into 2025 without digging into any guidance, but do you think that it's a similar setup where the first half could be softer or do you think that we start off on better footing?

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

A

We'll, John, get into the – our 2025 view...

John Lovallo
Analyst, UBS Securities LLC

Q

Okay.

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

A

...when we talk at year end in our February call. So, I'll hold off till then.

John Lovallo
Analyst, UBS Securities LLC

Q

Understood. And when we think about the just kind of the longer-term 3% to 5% top line target that you guys have. I mean, what are sort of the building blocks of that? I mean, we think about the market growth, but then how do you sort of think about the growth algorithm above and beyond that? And what are the big drivers? I mean, is it just existing home sales getting back off their back here, and what sort of is the driver?

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

A

So, when you think about our algorithm and how we've – together with how we structured our portfolio and capital allocation, we do expect a normal R&R growth rate to be in that 3% to 5%. And then, we would gain share on top of that, call it in the – 1 point or so of share gain on that. And then, our capital allocation where we are committed to bolt-on acquisitions and not holding, hoarding cash if we do not have an acquisition available to us, we would

Copyright © 2001-2024 FactSet CallStreet, LLC

take that capital and return to the shareholders via share buybacks and that would equate to a net range of 2% to 4% EPS accretion through that buybacks.

Inorganic growth in that 1% to 3% range, small bolt-ons in paint and plumbing, and then continuing with our dividend with a 30% payout ratio that equates depending on where the equity is priced at, somewhere in that 1% to 2% yield. So, that algorithm is what we feel very confident can deliver double-digit EPS growth through cycles.

John Lovallo
Analyst, UBS Securities LLC

Q

Understood. Earlier, you noted some deferred spending perhaps on the part of the consumer. I mean, has that translated into what you would consider to be significant pent up demand for your products?

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

A

We think there is. When we extend pre-COVID to today in a historical R&R growth rate, you clearly see the pull forward from COVID and the COVID bump that we all experienced. And then, there is a lag below the historical demand in the area under that curve is larger than the pull forward. So, we believe we work through our pull forward and that we're in a state of deferral. And in our business, again, 85% repair and remodeling the most highly correlated metrics to R&R, demand are consumer confidence, home equity, those are two big two big drivers for us.

So while rates can play a role in consumer confidence, it's really the confidence itself and there's numerous factors that go into that. So, it's about consumer confidence, home equity and home prices.

John Lovallo
Analyst, UBS Securities LLC

Q

And when we think about that home equity component, I mean, I would imagine that for your product portfolio, there's probably little that's done on a financed basis. But is that...

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

A

That's right.

John Lovallo
Analyst, UBS Securities LLC

Q

...home equity level being higher just another driver of the confidence, which in turn drives the sales?

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

A

That's right. And it's – that is the human nature, particularly if as we've had in the past, certainly not now, but in the past, where home equity was less than what a consumer owns on their mortgage. Very difficult to pull the trigger on a repair and remodel investment in your home, it's just the human psyche. So, when we look at where home prices are now, all-time high in terms of home equity levels, those are very strong towards the consumer feeling better about investing in that asset and investing in their home. Once confidence rolls around, we believe the consumer will come out of the deferral stage and there's a bright future for repair and remodeling.

Copyright © 2001-2024 FactSet CallStreet, LLC

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah, that makes a lot of sense. Let's talk about the relationship with Home Depot. I mean, it's a very unique one. Roughly 40% of your sales, I believe, goes [ph] through (00:14:15) Home Depot. But it's been a really symbiotic relationship. Maybe talk to us about how that relationship has developed over the years, where you see it kind of stands today, and then where are the opportunities as we move forward?

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

A

Well, that's 40 years plus where we've been working together with Home Depot. We were selling Home Depot stain when they had two stores. In fact, we were not too high tech, but we were mixing a stain with a canoe paddle and a 55-gallon drum. But we've got that canoe paddle in our history room. So, it's pretty important to us and the relationship is extremely important.

And it's – we certainly worked together across all – across the plumbing aisle and across all the components or all the products that we manufacture, but particularly strong in paint. And it's one of those things where we understand and have understood for decades that we're in it together and that there's an approach that has us focused on our mutual best interest is the best approach, and that's the approach that we've taken for a long, long time.

And we've got the leader in terms of brand, whether you look at equity or brand awareness in terms of quality from a third party assessment, clearly the market leader. And then, from a third party assessment in terms of service as well. So, that that brand quality and service piece is important as it relates to driving foot traffic for Home Depot. And if you want that outstanding paint – Behr paint, you've got to go to a Home Depot to get that, and that's a great place for both of us to be and it's evidenced in both our market share in DIY and, of course, in our outstanding PRO growth that we've seen.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah, no, 100%. All right. Let's talk about something that's pretty topical, tariffs. Update us on what the exposure is for Masco to China, but maybe even to Mexico if things do go that way?

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

A

So, we've talked about – some of these numbers, we've talked about and I can share with you others we haven't so we won't get into some of the related detail, but we've reduced our exposure to China by 40%. So, a significant reduction from when the first set of tariffs rolled in. And that has been through resourcing to other Asian company – countries, to India, a little bit to Mexico. In terms of our overall exposure, we do have some – a spa facility, a factory, large factory in Mexico. So, that could represent some exposure depending on where the tariffs grow.

I think, as we've talked before, John, the best indicator of future performance is how we've done in the past. And I think when you look at how we were able to navigate the tariffs last time, how we were able to navigate supply chain challenges, all of those stressors that come into our supply chain and our commercial organization, we've managed quite well. We're – of course, there's many different things that go into our margins, but our margins are above pre-tariff levels where – as we sit here today. And it's – for us, it's really about how do we manage our supply chain, manage our commercial relationships with pricing, how do we drive total cost productivity versus our competition in a scenario like this. I like our chances.

Copyright © 2001-2024 FactSet CallStreet, LLC

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah, that makes sense. Let's pause for a moment just to see if there's any questions in the audience before we press on here. I think we have a question over here. Just bear with us for a moment while we get you the microphone.

Q

Can you hear me? Keith, just going back to the mix component that we talked about a little bit earlier, recognizing that it wasn't that big of an impact for you, but maybe a little bit more for the industry. As we think about the R&R market getting back to sort of that 3% to 5% growth, do you think that mix can – will sort of improve with that? And do you need the existing home market to kind of balance in order to get back to that 3% to 5% R&R growth level?

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

A

Again, mix hasn't been a big component for us where mix in these situations trade-downs normally happen on the lower end of the assortment, and that's not a big component of where we are. We tend to be mid to higher end, particularly higher end outside of North America. So, I don't see – I think, as volume improves, consumer confidence improves. I think that mix will improve. But it won't really be a material improvement for us because we haven't seen a degradation of our mix up to this point.

With regards to starts, again, I think that as starts improve, say rates come down, affordability improves, that all leads to consumer confidence. And I think that that will – that no doubt will help the repair and remodel industry and will help our – with 85%, would help us. But it's not so much new construction that drives our business or that correlates to R&R. It's really about the existing stock that's there. When you look at the age of housing stock with those significant amounts, as you may recall, we were doing 1.8 million, 1.9 million, 2.1 million starts a year. Those homes in that pre-global financial crisis, and they were big homes, those are now that big sort of ramp through the snake if you will, that curve is now starting to enter into 20 years old, and that's the sweet spot where you need some TLC and some investment just from wear and tear in the homes.

And they're also now somewhat out of style, as it relates to what's currently in style. I'm not saying they're necessarily bad, but they're different. And so, that there – that bodes for a refreshment. So, I think the -p more so than the starts being a driver, it's the consumer confidence, as we said, home prices, home equity. And then, the fact that there's aging – this aging stock that's moving into the sweet spot in terms of age for R&R, and we have millennials that are forming households as they have children and they're – we know that they're repair and remodelers, they're do-it-yourselfers, and there are multiple projects based on our data. So, I think there's good tailwind for R&R as we look to the future.

John Lovallo
Analyst, UBS Securities LLC

Q

All right. Let's dive into plumbing, maybe starting with price/cost. It's something that you guys have managed very well. Maybe starting on the pricing side, how are you thinking about pricing as we move into next year? I mean, is it going to be sort of a normal cadence or what's the right way to kind of...

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

A

Copyright © 2001-2024 FactSet CallStreet, LLC

Our teams and our Plumbing businesses have done a great job with the price/cost dynamic, and that's a combination of good commercial work, obviously, but also having the brand and having they must-have position on the shelf through the innovation pipeline that we talked about earlier. So, it's a combination of things that give us that pricing power as well as the industry dynamics.

So, we will be price/cost positive in plumbing this year and I would expect next year to be somewhat like we had this year in terms of a more normal kind of standardized price increases. Right.

John Lovallo
Analyst, UBS Securities LLC

Q

And then, on the cost side, I mean, copper and zinc prices both went up, came off their highs a bit. As we move into the early part of next year, you're pretty comfortable in the ability to sort of offset those headwinds from other raw materials side?

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

A

You're exactly right, John. They did peak, I think, 2Q was kind of the peak and they've come off that a little bit, still elevated from where they were at the beginning of the year. So, yeah, I'm confident and historically we've demonstrated again back to our demonstrated performance the ability to get price/cost favorability as it relates to escalating commodity costs. And yeah, we'll do that.

John Lovallo
Analyst, UBS Securities LLC

Q

Right. And when we think about how Masco kind of contracts or procures some of these raw materials on the plumbing side, how much of it is sort of longer term contracts versus buying on spot?

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

A

Don't really buy on spot. Most – almost all of it is long-term contracts. We don't do any financial hedging. A typical agreement would be around some price/cost adjustment with a collar sort of thing, but more longer term contracts with valued suppliers.

John Lovallo
Analyst, UBS Securities LLC

Q

Okay. And in terms of the operating margin target, you expect to finish the year around 19%. 2026 Investor Day target is closer to 20%...

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

A

Back in plumbing now?

John Lovallo
Analyst, UBS Securities LLC

Q

It's plumbing, exactly. It's 100 basis points. I mean, how do you sort of bridge that gap?

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

A combination of what we talked about in terms of price/cost favorability, and certainly a lot of good work. And we have line of sight to a significant amount of that improvement in our total cost productivity pipeline, and we're executing against that. And then, the volume, typically we talk about a dropdown on incremental volume to profit of about 30%. So, the volume will be a help as well.

John Lovallo
Analyst, UBS Securities LLC

Q

In an environment where that volume, let's say, is a little bit slower than expected, let's say, we're flattish on the R&R market, do you still feel comfortable in the ability to kind of bridge that 19% to 20%?

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

A

I do. Yeah. And we have, as I said, line of sight to a very solid total cost productivity funnel.

John Lovallo
Analyst, UBS Securities LLC

Q

Okay. Makes sense. On the international side, for plumbing, it increased for the first time I think since 2022. You talked a bit about some of the health of the international markets, but maybe we dive in a little bit deeper. I mean, what do you see in any markets in Europe to kind of standout? China, I know you mentioned, is weak. But how are you kind of viewing those international plumbing markets?

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

A

Hansgrohe is our brand, the company over there and that team is doing a fantastic job. We're in the higher end. Not über-high, but in the higher end of the assortment. And then, we have our Axor brand that takes us very high end of the premium part of the assortment, and the team has done a fantastic job. We're taking – consistently taking market share in Central Europe. We've become the leading share supplier and manufacturer in Germany, our home market, and that was – we're very proud of that. Very strong performance in Central Europe. Just slightly in number two when you look at total Europe.

So, I would characterize it as stabilizing. It took a little bit longer to stabilize than the United States. But, as you mentioned, we did turn to growth in international. I would tell you that, as I mentioned before, China is less stable. There's more variability there, but we continue to grow. So, we're taking share there, and that's, again, attributable to some great commercial work and great assortment and corresponding project pipeline that continues to bear fruit for us.

John Lovallo
Analyst, UBS Securities LLC

Q

And on the China side specifically, I mean, the government has clearly tried to stimulate things through a number of actions. Are you seeing any signs of that flowing through into better consumer behavior?

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

A

Copyright © 2001-2024 FactSet CallStreet, LLC

Not yet, not yet. I think what we're seeing is the strong pipeline that we continue to fulfill on the – in the premium spot. And so, that consumer has held up. In terms of the overall broader consumer in China seeing a material change, haven't seen it yet.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah. And the China market has historically been, for building products, a little more focused on new construction. It seems like there is a bit of a transition just given the existing fleet of homes aging a bit, that there's an opportunity for R&R to, longer term, be a bigger driver. I mean, would you agree with that? I mean, how do you feel about Masco's positioning within that environment?

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

A

Yeah, well, we have a very strong position as it relates to new construction and project build business, particularly in that premium segment. And that brand is known and it's a high-end German brand. If you think kind of a BMW of faucets, that's sort of the positioning, if I can say that. And the consumers – we have a great Net Promoter Score, the consumers love that product. So, certainly there's an opportunity for repair and remodeling with our brand awareness that's already there. But our focus and the lion's share of that business is new construction.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah, okay. Let's turn to the spa business. I think it's about 15% of plumbing sales at this point. How do you kind of see that growing? How big of a part of the portfolio can that be? Where are the opportunities within that kind of adjacency?

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

A

Yeah, well, we've – there's a very nice tailwind in terms of physical and mental health awareness in the United States and the folks that like to – our machines do a very good job of promoting that sort of thing. So, growth – certainly, we're the share leader as we sit – now global share leader share leader in the US. We believe that there's significant continued growth just in and of itself in the base market. And then, the market itself continues to grow at a nice clip associated with the awareness of the benefits of soaking at hot water and taking spas, as it relates to quality of sleep and pliability of muscles and et cetera. So, it's a great spot to be with regards to that tailwind.

Have a very strong competitive advantage with our dealer network and we've applied our Masco operating system to that dealer network over a period of the last decade really to take and understand what the leading dealers are doing and what makes them different and being able to modularize that learning and take it to the other dealers and move it – that normal curve up in terms of performance so we know how to sell spas and our and our dealers are very strong. So, with that comes our bolt-on capital allocation strategy to find related products that can go through that dealer network.

And when we do that, it's an example of Sauna360, a small bolt-on acquisition that we made with a Finnish company. We bring those saunas into our dealer network, and we have a fantastic success rate as it relates to being able to sell those. Our Swim Spas was another one where we bring it into the dealer network. So, our bolt on strategy is really about getting products into our assortment that can help us build out our strategy, be it the shower space or the bathroom, to look for components that we can acquire that can leverage our brands or our

Copyright © 2001-2024 FactSet CallStreet, LLC

channel position. In the case of the spa, it's really about that channel position with that dealer network. But it's very consistent with our capital allocation strategy of small bolt-on acquisitions in paint and plumbing.

John Lovallo
Analyst, UBS Securities LLC

Q

Perfect. Before we move on to decorative architecture, just check once again and see if there's any additional questions in the audience. All right, let's talk about DIY volumes. A bit softer than I think everyone sort of expected and hoped for. In Masco's viewing, what's driving this? Is this the lack of existing home turnover, the cautiousness on the consumer? I mean, what are the big drivers there?

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

A

So, from a macro perspective, I'd go back to R&R, it's about home equity, home prices, and consumer confidence. When you look at DIY paint, there has been more pressure on DIY paint than other parts of our assortment and our portfolio. DIY paint, while overall in our business, existing home turnover is not such a key driver, you think you've got $130 million installed base and let's say $5 million of those sold a, call it, 4% turn. And we know that when there's a turn, you're going to get in that range of a 20% bump in terms of R&R spend, right, you're paying it before you sell it. And then, the new owners paint it to their aesthetic sort of thing.

So, that does help, but particularly in DIY paint. But overall, that's that $130 million base and the needs of those base – of the base that really drives the business. So, DIY has had some pressure from existing home sales, had some pressure from a aging baby boomers who are now turning more to PROs. And as DIY is challenged, PRO has grown. So, there's an offset there and we play and have done a good job of share gain in the PRO business. But yeah, DIY levels have pre-pandemic they were flat to down slightly and as we sit here now they're down compared to 2019 pre-pandemic levels.

John Lovallo
Analyst, UBS Securities LLC

Q

How much from 2019 double-digits?

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

A

Double-digits.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah. Okay. Makes sense. But yeah, it's an interesting transition into the PRO side, which is done incredibly well and has grown to close to $900 million, I believe, if not a little bit more.

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

A

Yeah.

John Lovallo
Analyst, UBS Securities LLC

Q

Copyright © 2001-2024 FactSet CallStreet, LLC

Just over the past, I know handful of years [ph] for the past (00:32:14) 10 years, how do you see that developing as a part of the business? I mean, there's been some changes in the competitive landscape, but how do you view your positioning within Home Depot and the real sort of opportunity to grow that business?

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

A

We think we've got a strong value proposition. If you slice up – and these are just broad numbers. If you look at the overall market to be in that $10 billion range in terms of architectural coatings and the PRO side, roughly half of that is done by professionals who also paint, right, PROs who paint or think of it as like a one or two truck painter or a remodeler who paints as part of what else they do, and they're shopping at Home Depot. And it's a compelling value proposition to save time while you're in Home Depot, buying your [ph] two-by-fours (00:33:06) and sundries and whatever to just turn around and there you have them, the best paint available to you right there.

And so working through and understanding the issues of why painters decide to drive across the street to buy another brand, and taking away those reasons and improving our service. And it really has been pick and shovel blocking and tackling, however you want to think about it step by step, improving that service proposition. And we've done a – did a very good job when the industry was capacity challenged to be able to recover and gain significant amount of share. And really, what we're seeing is very high Net Promoter Scores on people who have either tried us for the first time or more likely than not increased their share of wallet with us.

That says, hey, this not only is as advertised a great paint, but when we really look at the true as-applied cost, it's a great value. And we've been able to maintain that market share gain and continue to grow that market share gain. So, specifically, John, to your question of where I see it, I see continued share gain into a strong basic market. I see an R&R turnaround when the consumer comes back online and moves these projects out of deferral. I see a low ticket item that participates in light remodel jobs. And I see, obviously, when there's a – if there's a big remodel where you're going to do, say a kitchen with floor coverings, cabinets, appliances, countertops, faucets, et cetera, you're – obviously, you're going to repaint. So, I'm bullish on paint.

John Lovallo
Analyst, UBS Securities LLC

Q

Yeah. And if we think about just the difference between PRO and DIY side of the business from a margin standpoint, historically, you've talked about the PRO side being a touch lighter. I mean, is that still the case today? And is there any path to tightening that gap?

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

A

So, we've really aimed our productions and our operating system towards the investors that we want to appeal to, which is getting back – it's a bit of a broken record, but getting back to that double-digit EPS growth through cycles. And to do that, we need to be – it behooves us to be agnostic about who's applying it, whether it's installing it, whether it's a PRO or a consumer, what channel these products go through, whether it's North American or European.

So we've aimed our improvement – continuous improvement funnel towards reducing those kind of variables that would affect that. So, reducing the margin gap between channels, between countries, between low end of assortment and high end of the assortment, and between PRO or DIY. So, we've – and we're continuing to do

Copyright © 2001-2024 FactSet CallStreet, LLC

that. Well, we've made good progress. But you're right, PRO is slightly less margin, mainly due to the costs associated with outside PRO reps and the cost to acquire and service the business.

John Lovallo
Analyst, UBS Securities LLC
Q

Makes sense. There has been some changes in the competitive landscape with PPG selling their assets. Have you seen any change in the competitive landscape? Do you anticipate any change in the competitive landscape? Is there any possibility of more pricing pressure, things of that nature?

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

Haven't seen any so far. The promotional environment is pretty stable. And in terms of expectations, we've competed against and continue to compete against PPG, whether that chunk of their business is owned by somebody or not, I'm not sure what changes we have in store. We'll see. But we're very competitive against them and have been for a while. So, I don't expect that to change.

John Lovallo
Analyst, UBS Securities LLC
Q

Make sense.

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

Excuse me.

John Lovallo
Analyst, UBS Securities LLC
Q

Sure, yeah. How about just now from an [ph] input (00:37:08) cost standpoint, TiO2, I think you've seen a little bit of pressure there. What are sort of the expectations as we move into the end of this year and maybe even as we progress a little further into next year?

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

We've seen some pressure in TiO2, some in resins, as you mentioned. Remains to be seen what happens associated with that supply/demand relationship. Again, I look to our demonstrated track record and say that we've done a very good job and have a very good relationship with Depot as it relates to recovering dollars from commodity cost increase. And when commodity costs recede, giving those dollars back. So, there's an impact on the margins, but I don't see that changing as we go forward.

John Lovallo
Analyst, UBS Securities LLC
Q

Understood. Let's move to capital allocation. You guys raised the kind of bucket for repurchases and acquisitions to $750 million following the sale of Kichler for $600 million before. As we move forward, I mean, is that $750 million a number that we can work off of or is that kind of a one-time bump because of Kichler?

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

Copyright © 2001-2024 FactSet CallStreet, LLC

The way I would think about it, John, is that our capital allocation strategy has not changed, that being that we're focused on small bolt-on acquisitions in paint and plumbing. And to the extent that we have cash remaining, we will return that in a combination of programmatic share buybacks and then opportunistic share buybacks when available to us. That's not going to change. So, it's really a function of our cash flow.

And as I said, the low capital intensive business, we do a fantastic job of managing our working capital. So, high cash flow business and we will continue to return that programmatically to the shareholders through buybacks and acquisitions. So, no change. The bump was due to the proceeds. And again, consistently with our strategy to not hoard cash and return it back to the shareholders.

John Lovallo
Analyst, UBS Securities LLC

Q

All right. Maybe we'll end sort of where we started, and that was with just the overall portfolio. How are your – or what are your thoughts, and we've talked about bolt-on acquisitions close to the core, is there any thought from – on the Masco side about adding an additional leg to the stool or we're pretty dedicated to the two main businesses?

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

A

As I think our track record has demonstrated, we're focused on consistent double-digit earnings growth through cycles. We're focused on returning shareholder – cash to the shareholders when we don't have an acquisition that's available to us that meets our strategic needs and can give us our return on invested capital. So, we're going to stay focused on that.

We don't have any strategy or vision towards a third leg. We see growth opportunities and a competitive advantage with our paint and plumbing, Decorative Architectural and our Plumbing segments, and we're going to continue to drive that. And there's growth opportunities for us. We've got stretch margin targets that we've put out that we're going to hit, and we think this is the path for shareholder value creation for us.

John Lovallo
Analyst, UBS Securities LLC

Makes sense. And we are right at time. So, Keith, it's been great. Thanks very much.

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

Thanks, John. Appreciate it.

John Lovallo
Analyst, UBS Securities LLC

Yeah.

Copyright © 2001-2024 FactSet CallStreet, LLC

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.