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Masco Corp. (MAS)

Barclays Industrial Select Conference - Fireside Chat

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CORPORATE PARTICIPANTS

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

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Matthew Bouley
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Matthew Bouley
Analyst, Barclays Capital, Inc.

All right. Good morning, everyone. I am Matt Bouley, Barclays US Home Building Product Analyst. Thanks again for being here on day two of the Barclays Industrial Select Conference. Really pleased to continue our fireside sessions here with Rick Westenberg, CFO of Masco Corp. So all of you who have been here the past day know how this works. We're going to start running through the quick audience response questions. We'll get through those questions quickly and then we'll dive right into Q&A. So first question, please.

So do you currently own Masco? Overweight, market weight, underweight or no? This is an audience of entirely new investors,

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

Prospective investors.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Yeah. All right. Next question.

Your general bias towards Masco right now. Positive, negative, or neutral? All right. Leaning towards neutral in this audience.

Next question. Through cycle EPS, growth for Masco will be? Above, in line with or below peers? Weighted to, in line, but a little bit of above.

Okay. Next question. What should Masco do with excess cash? Bolt-on or larger M&A, share repo, dividends, debt paydown, or internal investment?

And the audience likes share repo. Okay. A little bit of dividends, too.

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Next question. What multiple of 25 EPF should Masco trade? The range from below 10 to above 21 times?

Generally between 13 and 18.

Okay. Next question. And the final question, the most significant share price headwind facing Masco today? Core growth, margin performance, capital deployment or execution strategy? That seems to be a clear response from the audience.

All right. So thank you, everyone. And thank you, Rick.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

Yeah, no, man. It's great to be here at Barclays. It's my first visit. And I look forward to this event in the future years.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Absolutely. And we're happy to have you.

QUESTION AND ANSWER SECTION

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

So I'm going to start with kind of the highest-level question possible. Keith has really reshaped the portfolio over many years. So maybe just be the – this is an audience of prospective investors, right? So it would be helpful, if you just kind of level set the portfolio of Masco today, kind of how you and Keith have kind of positioned the business for repair and remodel and kind of how you think about the cyclicality of the business?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah, sure. So Matt, as you mentioned, Keith Ullman, our CEO, really led the effort over the last number of years to streamline the portfolio and focus on repair and remodel. So in doing so, we exited cabinets, windows and doors, sectors of the building products industry that is more subject to the ups and downs of the housing industry. And our portfolio now is really focused on plumbing and coating. And those areas are generally lower ticket R&R building products that are focused on repair and remodel, which is a more consistent, reliable form of performance. There is some cyclicality, but it's a lot more muted than the new housing.

And from a prospective investor perspective, the value proposition is to have consistent earnings and consistent cash flow through a cycle and effectively be able to deliver double-digit EPS growth through cycles. And Masco has been able to do that. Over the last five years, Masco has delivered 12% CAGR from an EPS standpoint.

And our target is to do that from a double-digit perspective going forward. So, it's the ability for investors to participate in the housing industry without the cyclicality so much with regards to the new housing sector. So that's

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the value proposition and our track record has demonstrated that and that's certainly what our commitment is going forward.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Excellent. So, a great place to start. So thinking about the repair and remodel end market. And obviously Masco is kind of a great window into the US consumer, I just wanted to kind of get your sense. You've obviously laid out a 2025 guide already, but just kind of what's your sense of the US consumer at this point? What are we seeing out of the R&R end market. And what do you think it will take to kind of drive a bigger recovery there?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah, so we're seeing stabilization. So a little bit of rewinding the clock. During COVID, as we're all aware, we saw a significant pull forward in consumer goods and we were no different in that regard. And subsequent to that, we saw a bit of a hangover with regards to performance in 2022 and 2023 being down, relatively notable in terms of the industry. And what we're seeing is more stabilization. So what we have projected out is, as you mentioned, that we provided our guidance for 2025 and embedded in that, is an expectation that that from an R&R perspective globally, we would expect the markets to be flat to down low single-digits.

And that's broken down into two components. Here in the US, relatively flat and for the international markets in which we participate, it's primarily Europe and China to be down. So on a composite basis, flat to down low-single-digits. And from a consumer perspective, we're seeing a resilient consumer, a bit more resiliency with regards to the premium and luxury consumer. In terms of the mainstream consumer, a bit more price sensitive, I think obviously there's strength in terms of the R&R. It's a very robust market, but we haven't seen it return – stabilizing, but we haven't seen a return to sustained growth.

And I think, we've got a couple of very strong fundamental elements in the R&R industry [ph] that are tailwinds the (00:06:53) longer term and those are primarily the home equity. Home equity is at record levels in the US as well as the age of the housing stock. And every year, the age of the housing stock gets a year older and there's a big slug of inventory of houses that are entering what is often called the primary modeling age of 20 to 40 years and there's about 1.7 million homes that will enter that age bracket over the next three years. And we think that bodes well in terms of the R&R industry going forward. And so, quite frankly, we're very bullish with regards to how that looks.

Releasing some of that will depend a bit on consumer sentiment. And so back to the question on where the consumer is, resilient, but to a certain extent a bit standing on the sidelines, waiting to see how things play out with regards to policy, inflation, interest rates. But again, I think, it's a matter of timing with regards to when some of that gets unlocked and we see a return to more normalized growth in the industry here in the US, which we believe is more structurally in the 3% to 5% range.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it [ph] Maybe we'll (00:07:56) kind of jump into the segments, starting with plumbing. It seemed like in the fourth quarter, I mean you called out a little bit of softness in both channels, I guess in retail and wholesale. Obviously, we're talking about this kind of flattish outlook going forward. But was there anything hurricane, weather-related in there? What do you think kind of caused that little bit of a step back in Q4?

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Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah, as you mentioned, we mentioned this on our Q4 earnings call, that we saw a bit of softness in both retail and wholesale in our plumbing, softness being down modestly, low- single-digits. And overall, from a calendar year perspective, our plumbing business, currency-adjusted was relatively flat. So again, consistent with that stabilization period.

Weather wasn't a big factor for us. It could be a bit of a tailwind as we go into this year, but it wasn't meaningful. And we're seeing some of that continued softness here early this year and that is consistent with our guide, with regards to a little bit more modest expectation in the first half of this year with regards to sales across the board, but inclusive of plumbing, with some pickup in the second half of the year, really on the heels of the fundamentals really taking hold.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. And then kind of on the flip side, I mean, it seemed like international was actually positive. It did a little bit better in Q4 and now you're guiding for that to be down [ph] in the year (00:09:18) so was that, sort of like any kind of one-time-ish bigger projects that may have occurred in that business in Q4 kind of what drove that strength?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah, we've been really pleased with our international business [indiscernible] (00:09:30) German-based faucet and shower company that has operations in over 100 countries around the world. And so, it's really a diverse mix from a geography perspective, but in the backdrop of a pretty soft market, particularly in Europe and China, we did outperform. We did actually post some growth in Q4.

For the overall year, we were down slightly in 2024, but outperformed the market and certainly demonstrated our ability to perform well in challenging market and outperformed the market and gain share. Our expectations for 2025, as I mentioned Matt, the industry we expect to be down. We expect to be flat to down, so effectively to outperform again, as we go into 2025, but really pleased with how the company, Hansgrohe specifically has performed and we're very bullish with regards to how they're positioned going forward.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. So I'm going to jump to decorative, but just kind of stick with the top line. I think the guide was for the DIY side of the paint business to still be kind of down and pro up mid-singles. So, I mean, this has been now several quarters of pretty much that exact trend, give or take. So, I guess the question, we talked about this on the call, but just the DIY market in paint, what's it going to take to kind of restart that? I mean, are we sort of below 2018 at this point? Just kind of where are we level setting that end market?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah. So what we're seeing in DIY paint, at least our performance, is in line with the market. And so, it has been a bit challenged. DIY specifically was really impacted by the pull forward of COVID. So most building products were, but there were certain categories, paint being one of them, that were more exacerbated with regards to the pull

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forward effect during the COVID pandemic. As you could imagine, people were inclined to paint their house. That was something that they could do themselves in a project that was pretty manageable during that period of time.

And as a consequence of that, we saw the payback with regards to that pull forward, really over the last number of years. And we see a trend line more towards stabilization in DIY. So DIY, for the industry and for ourselves in 2024 was down high single-digits. Our expectation in 2025 for it to be down low single-digits. So, a continued trend down, but not – but moderating from that standpoint. And we expect that to continue to trend towards stabilization.

And there is a bit of a secular dynamic, in terms of people moving from DIY to do it for me. But that's really a tailwind in terms of our PRO business. And from a PRO perspective, we've demonstrated tremendous growth. We've grown the business from a PRO paint perspective by 70% since 2020. It grew mid-single-digits in 2024. And as you mentioned Matt, our expectation is that it grows mid-single-digits in 2025. And it's really on the heels of some great work that we have done at Behr paint in conjunction with our partner The Home Depot to really outperform the PRO market. And DIY, as I mentioned, we believe we're performing in line with the market. And [indiscernible] (00:12:34) the market and gaining share. And we'd like [indiscernible] (00:12:36) traction that's gained. And we believe we've got momentum there. So at the end of the day, yes, DIY is down. but PRO is largely offset. In 2025, our expectation is that paint sales overall are roughly flat. So that means the PRO paint business growth is offsetting the DIY paint decrease, at least in 2025.

And we're again, optimistic as things work through the pull-forward effect. As we continue to get traction and PRO paint becomes an even bigger part of our business, it's now over $900 million, so very sizable. But as it continues to grow, that will continue to contribute meaningful growth and profitability for Masco.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Yeah, so on the PRO, you mentioned maybe some shift to do it for me. I'm trying to understand. I mean, do you think or is your sense that this is sort of a – it's kind of what you're saying around plumbing and just the mix of consumer being a little more resilient at the higher end. Do you think that's the bigger driver of this kind of PRO strength? Or do we think that, you know what, maybe the market really is kind of structurally shifting back towards this kind of do it for me?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

So Matt, it's tough to really identify empirically the drivers. But I mean, clearly there's been a secular trend from the DIY to do it for me. But we do have kind of a generational dynamic. And as millennials are buying homes and doing household formation. There's a tendency – there's a balance there. We'll see how that plays out. But there's an opportunity for DIY to pick up. At the end of the day, I often say I'm rather indefinite, at least from a top line perspective, whether it's DIY or PRO, as long as we're capturing a disproportionate amount of the business and we're growing. And we're seeing that in paint overall because again, DIY performance for us has been in line with market. PRO has outperformed the market. So overall, we're outperforming the paint business market. The quality of our paint, which ranks very, very high.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Okay. And then, so, just kind of back to the overall business, thinking about the guide and kind of the cadence that you talked about on the call. It's a little slower in the first half, a little better in the second half. So just

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kind of – what are some of the underlying pieces? I don't know, if price is part of that as well, just around what drives a little bit of a better growth in the second half.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah. So, as I mentioned before, we saw a bit of softness as we closed out 2024. And we're seeing that continue as we do the first part of 2025. And so, we've got some visibility into that. It's down a bit, our guidance is that we would expect a slight reduction in our sales in the first half of the year and that's more of a continuation of what we saw in 2024. And it's a little bit informed by the fact that there's still uncertainty in the market with regards to policy, inflation, interest rates, etcetera. And as we move further in time, back half of the year, into 2026, we believe that the fundamentals of the business, as I mentioned before, the home equity value, the age of the housing stock, just the pent-up demand, really to start taking hold. We're not predicting a hockey stick type of recovery, but a gradual recovery.

Now our anticipation is that starts to manifest itself as some of the macroeconomic variables become a little bit more stable in the second half of the year. But we don't have a crystal ball, there's no magic with regards to July 1st, as I often say. But we do believe that ultimately, it's just a matter of timing when the industry does shift to growth. And we believe that will be a gradual trajectory, as we've got more stability and as we've got consumer sentiment and willingness to spend. And obviously, if interest rates do moderate a bit, that will be a helpful tailwind as well.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Of course. So, similar question just on the margin side. We'll talk about policy and tariffs separately, I guess. But just kind of, what does drive that little bit of an improvement in the operating margin in the second half that you guided to, kind of in terms of your visibility today? What you can you actually see that gets a little bit better in the second half.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Sure. So, just as a reminder, our guide in terms of our margin expectations, operating profit margins, is that we're roughly flat in the first half of the year on a year-over-year basis and we grow in the second half of the year. And for the full calendar year, we are projecting and guiding towards margin expansion of about 50 basis points from about 17.5% in 2024 to 18% in 2025. And the timing of that is influenced by a few things. One is a bit more softness in the top line in the first half of the year. Second is we did have, for those that listened to the call, a bit of a channel inventory build in our paint business in Q4 of 2024. And we expect a little bit of payback of that in Q1 of this year. So that exacerbates a little bit of the top line and therefore the bottom line impact. The implementation of the China tariffs will have an impact. We do expect that we will, from a mitigation perspective, minimize that and ultimately offset those China tariffs over time. And largely, we will do that in the second half of the year. But there's a bit of a timing, in terms of when the tariffs take hold and when our mitigation actions take hold.

And so, there will be a little bit of a headwind in the first half of the year with regards to that. And then on a lesser note, we do have some incremental trade show costs in Q1. So there's the ISH trade show in Germany in Frankfurt that actually I'll be at, here in March. And so there's a little bit of cost affiliated with that. So that influences our guide with regards to the first half of 2025. And then the second half, as we get more traction from a top line perspective, as we get more traction from a mitigation of the tariff impact, those types of things, in conjunction with just the overall efforts that the MASCO team has been really strong in terms of executing, which

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is leveraging our Masco operating system to drive productivity, cost efficiency, cost reduction. And that's what's been able to drive our margin expansion over the last couple of years. And that will continue to be the trend line as we go into 2025, particularly the second half of the year.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Perfect, yeah. And so on the tariffs, just to expand on that. So it sounded like there is a headwind embedded in the guide, not necessarily quantifying it, but it seems like it's more contained to the first half of the year. And then you're saying that some of the mitigation efforts will sort of – I guess overcome that by the second half.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Correct.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Okay. So is that characterized correctly?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

That's for the China tariffs.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Yeah, exactly. And so, what exactly are some of those mitigation efforts that should kind of cover that by the time you get to the second half?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Yeah. So overall and again, this is speaking to the China 10% tariffs that went in effect on February 4th. We have – the first and foremost is the structural changes that we've done, which is reduce our import exposure from China. So, we indicated in our earnings call that we've got about $450 million of China imports in 2025. That's a reduction of 45% since 2018 when we started this journey. So, we went from $825 million of imports from China now down to $450 million. So really excellent work by our procurement and supply chain team to really methodically and in a cost-effective way reduce our exposure to China and we're going to continue to do that. So $450 million is not the end point. It's just a part of – it's a point in time on the trajectory. So, we continue to do that and that will mitigate as we go forward.

Second is, we're working with our suppliers, in terms of negotiating some relief with regards to the price and so a little bit of shared implications. And so that is something that will take hold really concurrent with the tariffs. And then third is pricing, so pricing through our channel partners. And that is something that we've commenced and we're working through and there's a little bit of a delay with regards to when that ultimately takes effect just due to contractual arrangements with our channel partners, in terms of notification and when price increases can take effect. So, those are the three levers in addition just to continue to drive productivity and cost efficiency through the network. But that is something we're doing on a day-to-day basis.

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Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. And I guess just on that point, what's kind of typical in terms of that notification time period around implementing new pricing?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

You can think about 90 days in general.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Okay, got it. And then so, obviously we're talking about China tariffs and you talked about Mexico on the call, you've got a [ph] spa plant (00:21:15) there. Just how would you approach something that were to be enacted? And I guess it would also be helpful if you can kind of go over at least what you understand about your competition and what in the spa business and kind of how they would be positioned from a capacity perspective with Mexico.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

So maybe just to tackle this more broadly. From a China tariff perspective that is in our – in the mitigation thereof is in our guidance. We do not have in our guidance any incremental tariffs, whether it's Mexico, Canada, retaliatory tariffs, you name it. Those are things that we're continuing to monitor and track. And as in the past when we've been able to demonstrate our ability to navigate these types of challenges, we'll be well prepared to respond if and when incremental tariffs are implemented. But as it pertains to Mexico specifically, as you mentioned, Matt. We do have in our spa business some significant operations in Mexico and therefore our sourcing footprint is weighted to Mexico. It's pretty much primarily driven by our spa business. We do have some other more moderate exposure to Mexico, but that's predominantly our spa business.

And from a competitive perspective, we are similarly situated to one of our other big competitors in the space. And so, again, we're tracking and monitoring the situation. It's an industry phenomenon across the board, not just in spas, but also in terms of plumbing etcetera, in terms of these tariff headwinds. So, we feel we're similarly situated. And generally, we've been in our markets, other players in the market have been disciplined and rational. And so, we believe that the types of mitigating actions that we are pursuing and implementing are similar to what our competitors are doing as well.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Okay, helpful. And then so, you guys still have or you have the 2026 kind of longer term margin guide out there. And I think generally speaking, it was always kind of dependent on 3% to 5% market growth. Who knows nothing magical about July 1 or next January 1, for that matter. We'll see. But the question is between productivity and some of the cost programs that you've been enacting, can you still expand margins into 2026 without that level of market growth? Or are we at a point where, you know what, we've really done a lot of the heavy lifting, but got to have volumes coming back to drive that.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

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So, we're really pleased with the margin performance that we've delivered. So since 2022, we've increased our margins by about a couple-100-basis-points from about 15.6% to 17.5% in 2024. And that's in a very challenging backdrop in terms of an industry that's down, a top line that's down. And so that margin performance is entirely due to the cost efficiency productivity initiatives that we pursued. It's a really a similar story as we go into 2025 because we're projecting a fairly modest industry, obviously, flat to down low single digits. We expect our top line adjusted for the divestiture of Kichler and adjusted for currency to be flat to slightly up, but are pretty modest with regards to our top line expectation, but yet we're projecting margin expansion in 2025. And that's what's in our guidance from 17.5% in 2024 to 18% in 2025, and so a large part of that is driven based off of cost efficiencies and productivity.

And quite frankly, from a trend perspective, while the market recovery is behind what we had anticipated, our margin expectation in terms of expansion is actually ahead. So, we went into 2025 – sorry, 2024 with an expectation of 17.0% margin expectations, and we ended up delivering 17.5% on a weaker market. So my long-winded way to say, Matt, there's still legs in terms of those efforts and still traction. The incremental volume when it does manifest itself will enhance our margins. And really because our dropdown margin, our incremental margin is really in the 25% to 30% range, which is well north of our 17%, 17.5%, 18% operating profit margins, and so that will be a contributing factor. But what I would say is, Keith Allman, who we mentioned before and I are committed to those margin targets of 20% in plumbing, 19% to 20% in decorative, and 18.5% in total Masco in 2026.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Got it. And so what about kind of the overall first topic we talked about was the kind of portfolio transformation. Is it complete or do we still kind of look at additional bolt-on opportunities out there that might make sense?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.
A

So, from our current portfolio, as we talked about before, we divested cabinets, windows, doors a number of years ago. In 2024, we divested Kichler Lighting. And quite frankly, to us, that is probably the last major divestiture that's on the horizon. We continually look at our portfolio, so we evaluated with our board on a periodic basis. But in terms of where our portfolio is standing today, we're very confident with regards to the sectors in which we play, which is primarily plumbing and coatings and wellness. And so, we're focused on those particular areas.

From an M&A pipeline perspective, we continue to cultivate target opportunities. They are exclusively in the plumbing, paint, and wellness area, and they're directionally bolt-ons. And so, a good example of the type of transaction you should expect from Masco is the Sauna360 transaction that was an acquisition in 2023. That was a sauna business that was bolted on to our Watkins Wellness spa business. And the business case there was really to be able to leverage from a commercial synergy perspective, the ability to sell saunas through our spa independent dealer network. And that business case has met or actually exceeded our expectations, and we're continuing to ramp up in that space. But those are the types of things that you should expect to see from Masco in the future.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Okay. Got it. And then since the PPG architectural sale, I mean, any opportunity there for Masco to pick up any shelf space or have you seen any changes in the aisle?

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Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

Well, what I would – how I would respond to that, Matt, is from a bare paint perspective, we are very proud of our brand, our portfolio, our product, and our service and our partnership with the Home Depot. And we think we are the partner with the Home Depot and we continue to deliver with regards to that partnership and co-invest particularly on the pro as well as the DIY in terms of initiatives. So, I think we're going to continue to demonstrate our value proposition and our success by continuing to execute on what we can control and what we're focused on.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Okay. And then just we talked a lot about price, but just from a cost perspective, kind of both segments, brass and then some of the coatings and inputs, what are we expecting this year?

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

So, in 2025, our guidance assumes that for our plumbing commodity inputs, which is brass, which is primarily copper and zinc, that we have low single digit inflation. So, as you may track, the copper and zinc prices came off of their peaks in Q2 2024, but they still remain elevated. Last check, copper was still above $4.50 per pound and so still elevated and that's baked into our expectations in 2025 of low single digit inflation.

On plumbing though, we do expect to have price of low single digit as well that will more than offset commodities. So, in plumbing, we do expect a positive price cost relationship for our plumbing in 2025. As it pertains to decorative, namely the paint, the main inputs are resin and TiO2. We haven't really made a call in terms of our expectation for 2025, other than to say that we do see some upward pressure in those commodity inputs. And in our relationship with the Home Depot, we have basically an arrangement that is a price cost neutral, i.e. if commodity prices go up, we obtain price from the Home Depot. And as commodities go down, we get price back. And so, it's a price cost neutral relationship because it's a partnership and we don't want – and either party wants to be advantaged or disadvantaged based on commodity costs. And so, our expectation as of now is flat price cost -commodity costs in 2025 in our paint business.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Okay. With 10 seconds left on the screen here, the rest of the capital deployment, we talked about M&A, but just how you think about the prioritization of share repurchases this year.

Richard Westenberg
Chief Financial Officer, Treasurer & VP, Masco Corp.

A

So, our capital allocation framework has been very consistent for a number of years. First and foremost, we reinvest in the business at about 2% to 2.5% of sales. And for 2025, we indicated about a $175 million, pretty capital wide business, which is another attractive element of the Masco value proposition.

Second is investment grade balance sheet. We are a BBB credit, BBB equivalent across the board. And for us, that's very important to make sure we have access to the capital markets. We maintain and manage a leverage ratio that is gross debt to EBITDA of less than 2.5 times.

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Third is a relevant dividend, and we've got a 30% payout ratio. We've increased our dividend now 12 years in a row.

And fourth, is that we would deploy all available cash, excess cash beyond items one, two, and three to share buybacks or M&A. And so, to the extent that we have M&A, we will deploy that cash towards funding that M&A. To the extent we do not, we would return that cash to shareholders as a good fiduciary in terms of shareholder capital.

And so, right now we, in 2025, have indicated that we have an estimated $600 million available for share buybacks or M&A. And we'll obviously keep everyone posted in terms of any M&A activity. But as it stands right now, our guidance is assuming that that $600 million is for share buybacks absent any M&A activity.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Excellent. Great place to finish. So, thanks very much, Rick.

Richard Westenberg

Chief Financial Officer, Treasurer & VP, Masco Corp.

Thank you.

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