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MANAGEMENT DISCUSSION SECTION

Irene Tasi  
Director-Investor Relations

Good morning, everyone, and welcome to Masco's 2015 Investor Day. I am Irene Tasi, Masco's Director of Investor Relations. And on behalf of the entire Masco and TopBuild management team, we welcome all of you who have joined us here in person and for those that have also joined us via the webcast.

We are excited to share with you our medium-term strategies that we believe will create value for both Masco and TopBuild shareholders. We have an excellent program lined up for you, with presentations from many of our top business leaders.

Before we start, please allow me to remind you that statements in today's presentations and Q&A sessions will include our views about Masco's and TopBuild’s future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. We’ve described these risks and uncertainties in our Risk Factors and other disclosures in our Form 10 and our Form-Q that we filed with the Securities and Exchange Commission. And we’ve described TopBuild’s risk and uncertainties in the Risk Factors and other disclosures in the Form 10 filed with the Securities and Exchange Commission.

Today’s presentations also include non-GAAP financial measures. A reconciliation of these adjusted measures to GAAP as well as the materials we will review today will be posted on the Investor Relations section of our website, masco.com.

So once again, thank you for joining us today. And it is now my pleasure to introduce our Chief Executive Officer, Keith Allman.
Keith J. Allman  
President, Chief Executive Officer & Director

Well, good morning, everyone. I'm excited about today and thank you for your participation. I'm excited about the turnout here in New York City as well as online. Looking forward to a very good day and thank you very much for your participation.

Masco is on a roll. We have built some solid momentum 2014 and that momentum is carrying into the first quarter of 2015. But we're here to talk about future Masco. And I'm excited to do that, helping you better understand our company in more detail, helping you understand our plans for the future and, importantly, the results we expect to achieve with those plans is the goal for the day. I am confident that with your participation in the conference, we'll achieve that goal. You'll have a better understanding of the company, you'll have a better opportunity to more confidently model our future.

So let's get started. We're transforming this business. We have a clear strategic plan going for ward with the future and we are and we will continue to deliver strengthened performance. Let's talk about the transformation. Our transformational work can be grouped into three general areas, and I'd like to begin with the organization and team. For me, that's where it always starts. All but one of our senior executive leadership team at Masco is new to their role. And with that newness comes a sense of energy and fresh ideas.

One of those ideas was to rethink how we approach the role of our Corporate Headquarters and our Corporate Office. And because of that we implemented, a change from centralization to center led and, with that, reduced our corporate staff by almost 50%. That was a very tough action to take. But our decisions are more streamlined, our business units are more focused and our costs are lower.

With regards to the work that we've done in operational excellence, if you look at our profit dropdown on the incremental volume in 2014, our profit dropdown rate was 37% and we've achieved over $150 million of cost productivity with the acceleration of the Masco Operating System. And we continue to expand our margins; our Q1 margins of 2015 were the best Q1 margins in the company since 2007.

On the portfolio and capital allocation side, we are transforming the portfolio and significantly changing how we allocate our capital. We're committed to returning a significant amount of capital to the shareholders and have returned $135 million in Q1 of this year alone. And, of course, we're transforming the portfolio. We have announced and are executing a significant spinoff of TopBuild, our Installation Services business. And that's spinoff will create a better Masco, a better Masco with significant benefits.

Let's talk about couple of those benefits. Masco will be a less cyclical business. As you see on this chart, by virtue of the spin, we will increase the international mix of our business. More importantly, as you see on this part of the chart, we will significantly reduce our dependency on new construction, with our new construction mix of business being reduced by almost 40%.

The new Masco will be focused on manufacturing businesses, where brand and innovation are key success factors. That plays to our strengths. Also, the spin will create a more clear role for our stock in the portfolio of our investors. And that clarity, we believe, will lead the multiple expansion. So, we're clearly delivering on our transformational promise.

Now let's talk about our strategy and our focus going forward. As you can see, our strategy is focused on three areas. I'd like to start with the first one. Our stable of brands is an absolute powerhouse and leveraging that power is a key part of driving our core businesses to their full potential. It still brings a smile to my face when I think
about the basic research we did in the North American plumbing industry. And what that research showed us is that consumers believe that one of the best toilet manufactured in the United States was a Delta toilet and that was before we even made a single toilet. Now that’s only one example, but it’s a great example because it shows the power of our brands and the halo and the market opportunity that that power represents.

Over the course of the day, you’re going to hear from many of our segment leaders and our business leaders about how their specific strategy for brand leverage will be realized. And with that, they’ll help you to better understand the Masco story.

Hand and glove with brand is innovation. If you look at the left side of the chart here, you’ll see that a full 30% of our 2014 volume was from new products, that is, products that are less than 36 months old. That is good vitality. Also you’ll see by the other part of the chart that it’s not about being a one-hit wonder. We’re innovating year-after-year-after-year-after-year, because we have a robust innovation process and culture. It’s in our DNA.

When my daughter was a freshman, we repainted her room, a freshman in high school, we repainted her room with one of the first gallons of Paint & Primer in One produced. She’s graduating from high school in a couple of weeks, and during that short time that innovation of Paint & Primer in One revolutionized the category.

And I continue to marvel at the innovation that comes out of that little town in that skinny valley in Southern Germany in the Black Forest, Hansgrohe. Hansgrohe is one of the most recognized businesses in the global plumbing industry, their recognized and awarded for their innovation in function and for their renovation in design.

And thirdly, to round out our strategy to drive full potential out of our core is operational excellence. I’ve already talked about the momentum that this Masco Operating System is bringing to us. I’m passionate about building a long-term capability in this area. I grew up building these systems throughout my career and I see the value when you get this right. And we’re getting it right. We’re getting it right because we are linking our business unit leadership team’s compensation to not only the implementation of this process, but also to the results that this process yields.

Okay, let’s move to the second leg of our strategy and that’s leveraging opportunities across our portfolio. We have realized in 2014 over $90 million of purchase material savings due to consolidated buying. We’ve deployed in excess of 15 standardized tools across the enterprise, ranging from value engineering and packaging redesign on the cost side to urban market penetration tools and commercial segment customer acquisition tools on the revenue side. And importantly, more than ever in the history of Masco, we are moving leaders across businesses to drive talent and people development. Our companies are worth more being part of the Masco family because of the leverage that we can apply.

Now let’s talk about actively managing our portfolio. Of course, we’ve announced the spinoff of TopBuild. But beyond that, we’re going to continue to manage our portfolio for value creation. We’ll remain disciplined and make selective acquisitions in spaces with attractive end markets where brand and innovation are key. Over the next several years, we anticipate spending in the range of $500 million on inorganic growth.

We’ve talked about the transformation and how we’re delivering on the promise. We’ve talked about our strategic focus going forward. Now let’s talk about our results. As I said at the outset of my presentation, we have solid momentum. Over the past three years, we have driven approximately $1 billion of top-line growth, very close to all of it organic. With our focus on operational excellence, we have produced a solid 35% profit dropdown on that incremental volume and our EPS has almost tripled. We also have momentum with the returns we’re generating.
We achieved solid returns in 2014, exceeding our cost of capital by 160 basis points. So we have momentum in our performance.

Now let's look at the future. As I mentioned, you'll hear from our segments and our business unit leaders and we'll talk about the specific growth, profitable growth strategies that they're executing. But if you take all of those plans and you roll them up and you look at Masco in total and aggregate the plans, from 2014 to 2017 we will grow the top line at a 7% compounded annual rate, our EBIT will reach $1.25 billion and our EPS will double. On the free cash flow side, between 2015 and 2017 we expect to deploy in the range of $2 billion across our disciplined capital allocation strategy.

So let's pull it all together. Masco is positioned to outperform. We are delivering on our transformational promise and our results back that up. We are combining a stable of powerhouse brands with a robust innovation process and compelling growth strategies. And you'll hear more about that throughout the day.

This will all result in the doubling of our EPS and the generating of $2 billion of free cash flow to drive shareholder value. As I said, our goal for the day is to help you understand our company in more detail and to help you more confidently model our future. Thank you very much for your attention. Thanks for taking the time to be here so that we can share our story. I'm excited about it.

And with that, I'd like to introduce Richard O'Reagan. Richard is our Group President, in charge of our Global Plumbing segment and he will now share with you further detail about our Plumbing segment. Richard?

Richard A. O'Reagan  
Group President - Global Plumbing

Thank you, Keith. As Keith stated, I'm Richard O'Reagan. I'm in charge of the Global Plumbing platform. And I'm here today to talk to you about that platform and to help you gain insight into it, but, more importantly, to help you understand our plan for growth.

By way of introduction, I've been in the plumbing industry for about 15 years, six of which have been at Masco. Prior to this position, I was the President of Delta Faucet Company. And I think at Delta, we have demonstrated a record of driving profitable performance.

So why are we here today to talk about growth and to talk about the Plumbing platform? I strongly believe that when you have heard our plan to use our portfolio of brands, to leverage our innovation processes, to look at our unique product breadth in the marketplace and then combine that with a growth strategy, very simple, that's intended to, one, extend our leadership position in North America, to, two, pursue category expansion and to, three, penetrate key international markets, I believe you will leave this room understanding that we, unlike anyone else, are positioned to outperform the market. And that's our goal for today.

So let's get to that platform. The Plumbing platform consists of nine companies. We are the most diverse and largest of the platforms with Masco. Unlike some of our competition, we have a global presence. And, again, unlike some of our competition, we do not heavily rely on new construction for our success.

So let's talk about the brands that Keith mentioned as they relate to the Plumbing platform. There is simply no one else who has the breadth of brands and leadership position that Masco does, when it comes to plumbing. Whether we're talking about a plumber who values the BrassCraft brand for water stop, or Delta's number-one share-of-shelf position in Big Box, or Hansgrohe's prominence, unmatched and unrivaled with international architects and designers. No one can claim that position of brand leadership like Masco can.
So let’s talk about why that’s relevant. And to do that, we need to talk about our unique position and our unique breadth of product categories, because combined this gives us an opportunity for growth that others don’t have. We participate internationally and within North America, work in everything from Rough Plumbing to Bath Accessories to showers and tubs. When we combine our position of brand strength, and you heard one example from Keith earlier and I’ll talk about it later regarding toilets. But when you talk about our categories, just a few years ago, Delta was not in bathing systems. We now have prominence in retail with Delta-branded bathing systems. The reason this is important here that it drives our growth.

We have the ability to extend our position in a variety of categories that our competitors can’t and we have adjacencies that we can leverage that our competitors can’t. So between our product breadth and our brand strength and our leadership position, I think we’re in a tremendous position to win. And, in fact, we have been winning. We have proven our ability to execute and succeed in this area.

We have had strong growth in the Plumbing platform. We have beaten the marketplace and we have shown that that brand strength, that product expansion and shortly I’m going to talk about our innovation process and how we can use that for further growth, those have shown and proven that we can execute profitable growth. So that’s a little bit about who we are and where we’ve been and what we’ve proven and the success that we’ve had.

Now I am going to talk very briefly about our growth plan and how we’re going to move ahead, relatively focused and simple. The first is extending our leadership positions that I just talked about in North American Plumbing. The second is to pursue category expansion. And then the third is to further penetrate very key international markets.

So let’s get started. The first, extend our leadership position in North American markets. Taking a look at this slide, you can see that we have tremendous strengths in some key areas, in Big Box, Trade and Showroom and Showrooms across the U.S. and Other Retail. In fact, our penetration in that area is about 27%, 28%.

But on the right, you’ll notice that there are other channels where we are not as successful. And the key to this is having success in those under-penetrated channels, specifically Commercial, Builder and Urban Market. Here our penetration is only about 10%. But why do we think that we can succeed in these markets where we have not yet done so – I should say channels where we have not yet done so? I’ve talked about brand so far, but let’s talk about that innovation process that I referenced.

If you look at the faucet that you see here, about three years ago when I was at Delta, we put this through our Voice of the Customer process. It’s an integral part of our overall innovation process. And we took that out to key designers, key influencers. And as part of our process we iteratively redesigned it. And what was the result? We went to KBIS in February, the Kitchen and Bath Show, and we took the number-one position. I think that shows conclusively that you can take our innovation process and apply it and win. So in total for this first strategy, extending our leadership in North American markets, we feel it represents about $175 million to $250 million opportunity.

And let’s give an example of where we’ve shown that this can succeed and be successful. Delta recently won a top-ten builder, NVR. And I know that many of you in this room are familiar with NVR. That represents over the life of the contract about a $25 million to $40 million opportunity just with that one win. So we’re having success with this strategy already.

Let’s look at our second strategy. Much like I just talked about, having success or moving ahead in under-penetrated channels, the second one revolves around having success in under-penetrated categories and adjacent
categories. We are tremendously successful in faucets and mixers and showers and spas. We have tremendous penetration, as you can see on the left. Where we are not as successful, where we have not penetrated is in the areas of Rough Plumbing, in Bathing Systems, in Sanitary Ware. An example of the opportunity would be that in Sanitary Ware and Bathing Systems we’re only at retail.

So why do we feel that we can succeed in expanding our categories? Why do we feel that we have great opportunity here? Yes, we have tremendous brand strength and Keith referenced this research that you see on the screen. And we went out, as Keith mentioned, to the marketplace and said to people, what brand of toilets do you know? We were number three. And as Keith mentioned, we'd never made one. And that was great. But what's key to our ability to succeed with that, that just gives us an entry point that, just gives us the right to go into that category. That brand allows us to enter.

But what really happened was we took the innovation process to a mature category, we did ethnographic research. We went out and, yes, went into people's homes and saw how they interacted with their toilets. I won't go into great detail and you'll thank me for that. But what we did find were that there were some pain points that no one talked about, leak points under the tank. We got rid of them. Installation issues, stupid things like a scraper. People just wanted a scraper so didn't have to touch that icky wax ring. I know this is way more detail then you're interested in. But the point is we found opportunity to innovate, whether it be in installation or in product design or in process. And we applied that.

And do you know what happened? We entered toilets in 2012 we were late to the game in a mature category. And in February of 2014, Consumer Reports ranked one of our toilets above every single Kohler toilet, every single Toto toilet and all about one American Standard toilet. So not only did we have the consumers right to enter into this category, our innovation process combined with that brand strength prove that we can succeed. And we feel that this is in extendable model for other categories and other under-penetrated areas.

And once again, it's working. We think this represents about a $75 million to a $125 million opportunity. And when I say we see that this is working, recently BrassCraft had a win at Lowe's with braided supply lines and gas connectors. They had never been in the retail segment and specifically with Lowe's in that area. That's a great extension.

Another example would be under the inorganic growth would be our acquisition of Endless Pools by Watkins. Not a portable spa, which they're used to, but a very close adjacency in terms of a wellness swim product. So I think overall we can see that we have the ability or capability to win in terms of pursuing category expansion.

Now let's talk about the third element of the strategy and that would be about key international markets and penetrating them. We are already the number-one faucet and mixer company in the world. No one else can claim that position. This is another area where our competition doesn’t have the opportunity that we do. We sell through Hansgrohe in over 140 geographies; Delta sells in over 50. When you look at that opportunity and that base, whether we're talking about core of Europe or we're already in Brazil and China and key emerging markets of India, no one else has that geographic diversity.

But it's about focus and it's about knowing where your strengths are and going to those places that present the greatest opportunity. And as you can see up here, we intend on some key European markets where we are very strong to extract that opportunity. And in key emerging markets, again focusing in terms of Brazil and China and continuing to leverage our investment in those markets.

And when we look at our ability to succeed in this area and I'll take, for instance, leveraging Delta and Hansgrohe's innovation in this case. Hansgrohe was recently awarded the iF Red Dot Award, iF is International
Forum. It’s a very prestigious design and innovation award. And they were awarded the number 11 position out of 2,000 companies. They beat Mercedes, Daimler, they beat IBM, they beat Nike in the 40th position. I think that really talks to Hansgrohe's strength in innovation and design. More importantly, it serves as a tremendous foundation for our continued growth in these key international markets. And we project that here the opportunity runs in the $125 million to $225 million opportunity.

So let’s pull it all together. When we look at this in total, we feel that we will project to the $3.5 million to $3.7 million in 2017, and I want you to note that this is currency adjusted. So if you look at that 2014 number and say, hey, that didn’t quite match what you showed on your first slide. That’s simply due to currency from results of last year. I think just as an importantly is that we intend on growing at this 5 points to 6 points compound annual growth rate over the next three years. We intend on delivering operating income in the 16% to 17% area.

So let's wrap it up. We have a proven, strong, dynamic record of growing profitably. We've done it. We've proven it. We can do it. Number two, we have a competitive position that no one else does. No one else have our group of brands, our leading position. No one else can leverage the innovation process like I’ve demonstrated that we can. No one else has the product breadth and the category expansiveness that we do. And most of all, I believe in the strategy of extending our leadership position in North America, of pursuing that category expansion and having success in those keys international markets.

So with that, thank you once again for being here today. I’d like to introduce Gary Gessel, who's our President of Milgard Windows.

Gary Gessel
President, Milgard Windows

Good morning. I am delighted to be here today to share with you this segment of the Masco business, Other Specialty Product. My name is Gary Gessel. I am the President of Milgard Windows and Doors. And I have been with Milgard for about 18 years. I’m going to share with you today the business as it stands in the segment today and also the growth plans for this segment.

Let's start with an overview of Other Specialty Products. With revenues at $700 million, Other Specialty Products represents 8% of Masco’s total revenue. What is interesting to note about this category is the concentration that we have in repair and remodel, at 74% of our total revenue.

There are three business units that make up Other Specialty Products, Milgard Windows and Doors, the UK Window Group and Arrow Fasteners. Each is a leader within its industry. So let's look at how we performed over the last four years. With 129% compound average growth rate of operating profit, we feel that is very strong performance. Note the operating profit has doubled in this segment over the last two years.

Now let's move on to the growth plans for this segment. There are three primary strategic priorities for Other Specialty Products. Number one, we intend to extend Milgard's leadership position in its core Western markets. Number two, Milgard is pursuing geographic expansion further east. And number three, we intend to extend the UK Window Group's leadership position also.

Focusing first on Milgard's leadership position in a very fragmented Western U.S. window industry. You can see the strong share position that Milgard presently occupies, with share that is two times to three times our nearest competitors. In spite of this growth, Milgard has been able to outpace the industry growth and will continue to outpace the average industry growth. How are we going to do this? Well, Milgard participates in the recovery of both the new home construction and the retro replacement market.
In addition, during the downturn, Milgard strengthened its value proposition, reduced cost, invested in new products and grew share. Our strongly held position is that there is still plenty of room for Milgard to grow in its core Western markets and take share from both regional and national competitors.

Let's look at Milgard's position in its addressable market. What you see is a detail of our addressable share by geography. The tan bars represent the total available addressable market. The red bar represents Milgard's share within those geographies. As you can see, despite our leadership position, we submit that Milgard still has plenty of opportunity to grow.

So how is Milgard going to grow its share in its core Western markets? By delivering on its award-winning value proposition. Our value proposition is composed of really four parts. We manufacture high-quality innovative products, all backed by a full lifetime warranty. We deliver the best customer experience in the industry and we develop trusted business partner relationships with our dealers.

Let's review those one at a time. Milgard manufactures innovative products in the mid to high-price point segments of the industry. Innovation has become a core competency for Milgard over the last four years or five years. But our innovation goes beyond products and extends to trade and channel programs that help our dealers distinguish themselves. Milgard customers enjoy a differentiated set of services that varies by distribution channel and by customer size. This includes programs like digital marketing and co-op advertising that allows our customer to reach their customer.

Number two. Milgard continually wins recognition as the highest-quality vinyl window in the Western United States and this quality is backed by the best warranty in the industry. Third, we are obsessed with delivering the highest customer and consumer satisfaction and experience in what, for many consumers, can be a very complex and frustrating purchase experience.

We have a decentralized business model that places the decisions as close to the customer as possible. We deliver high-touch concierge-level service, short lead times. In a recent article in The Huffington Post, writer Ann Brenoff said in part the following after having an experience with Milgard's service. She said, quote, I am flabbergasted. An honest company honored a warranty agreement that I long ago forgot about, if I ever even knew it. I was unprepared for the shocking value of good customer service [indiscernible] (37:14) Milgard, end quote.

Lastly, we deliver and partner with knowledgeable and trusted dealer partners throughout Western United States. Our knowledgeable and highly trained inside and outside sales force is two times to three times our competitor. Along with our Local Service Techs, these folks are all empowered to deliver the highest level of customer service to our dealer customers, to the consumer. In summary, it is the daily execution of this value proposition that allows Milgard to win in the West. Our value proposition has been with us for many years and it is virtually impossible to replicate.

I mentioned our cadence of innovation. Over the last few years, Milgard has launched new products in a number of categories. We have launched an award winning family of wood window products, Essence Windows and Doors. These products won a Crystal Achievement Award for innovation. Our relatively smaller share in the Wood Window segment will allow us to continue to grow in this category by extending the products to additional Milgard dealers and by expanding this family of products.

For example, in June of this year we will launch a wood sliding glass door, with in-swing and out-swing followed closely thereafter. You may be saying, hey, Gary, wood windows is old news. Not these wood windows. These are innovative, highly engineered, structural fiberglass exterior with full wood interior. Beautiful windows.
We’ve also launched over the last few years Premium Painted Vinyl products. Vinyl swinging doors, moving glass wall systems. All these products you will notice are in the high-price point category and have really helped us to drive an improved mix and contribution to Milgard’s bottom line.

So how is Milgard going to continue to grow its leadership position in its core Western market? Number one, grow in the under-penetrated geographies. Number two, partnering with additional dealers, key dealers, and growing our share of wallet with our existing dealers. And number three, by leveraging our Milgard Value Proposition, we call that MVP, and continuing our cadence of innovation. We believe that there is $150 million to $185 million of opportunity over the next three years.

Turning now to the second strategy within this segment of Masco business, Milgard will extend its position into new geographies. We have grown over the last 53 years primarily through organic growth and opening Greenfield facilities. With 1.3 million addressable units in the Texas market, we believe that there is a plenty of opportunity there. In March of this year, Milgard opened a manufacturing facility in Texas and began manufacturing windows there. So as I point out, there are going to be three key initiatives that we intend to deploy in order to win in Texas.

Number one, go into manufacturing, which we did in March of this year. Number two, grow our Texas dealer base. Over the last year, Milgard has grown its dealer relationships from 144 dealers to 196 dealers. And lastly, continue with our cadence of innovation in the Texas marketplace. We will launch in August of this year a new product that is new to our portfolio that is designed specifically for the Texas marketplace.

Turning now to the third strategy within this business segment from Masco. Let’s look at the UK Window Group. The UK Window Group has share that represents 17% of the windows sold in the UK and holds the leading position among its competition. The UK Window Group has three primary strategies to continue to grow. Number one, grow its sales with existing mid to large dealers. Number two, expand its distribution to reach smaller dealer installers in new geographies. And number three, develop innovative solutions such as new colors and coatings, premium hardware. So bringing it all together for this entire segment, the outlook for the segment we believe over the next three years that there is total growth of $200 million to $250 million, with operating profits by 2017 in the 10% to 13% range.

In summary, this is a growth segment for Masco. As you’ve heard, Milgard as an industry leader in the West, has a clear strategy to continue to grow by leveraging our brand, our MVP Value Proposition and by continuing the cadence of innovation, we believe that we are uniquely positioned to grow in the West and deliver profitable growth. In addition, the UK Window Group as an industry leader has a very clear strategy to grow.

I appreciate your listening to me this morning discussing Other Specialty Products. I’d like to turn the microphone now to Keith Allman, who will lead us in a Q&A session for these segments.
QUESTION AND ANSWER SECTION

Keith J. Allman  
President, Chief Executive Officer & Director

Gentleman over here?

Hello. Okay. Thanks very much.

Keith J. Allman  
President, Chief Executive Officer & Director

I am sorry. Can you wave your hand or do the waving? Okay, there you are.

Okay. Thanks very much for all the information. Very interesting. I wanted to just start off by asking a couple questions about Plumbing. So in your presentation, I think you laid out three categories, Richard, of opportunity. And we talked about those in terms of having a 16% to 17% operating margin going forward. And I guess I was curious, of those three categories, if you could give us a sense for which of the three are the most margins dilutive in your view or the least margin dilutive? And why?

And then the second question I had was, when you talk about gaining share in Sanitary, can you give us a sense for whom you are gaining share from? Like, are you at the higher end, at the lower end, if there's a different way that you segment the market where you think you're really gaining share in Sanitary? Thanks.

Richard A. O'Reagan  
Group President-Global Plumbing

Sure. Let me answer that in the two parts, [ph] Stephen. (45:30) So first of all, when we talk about the three elements and their margins, which is more dilutive and least dilutive, it’s difficult to answer that from the standpoint of the first one is extending North America. And in North America we have a variety of Plumbing platforms, from rough to finished. So as I’m extending in the more dilutive and the less dilutive, it’s a combine so I can’t say that that particular strategy has an effect in that manner.

Category expansion, slightly different in that dependent upon the category that we choose to enter, we do see some dilution as potential. I will give the example, Sanitary Ware tends to be more dilutive than does, say, Faucets and Mixers. So there's some opportunity with category expansion to have some impact on margins. And then when I look at the international expansion and the priority market, again, that's difficult to judge from the standpoint of the emerging markets tend to be dilutive, but not the core European markets. So it's kind of a mixed bag in terms of answering the dilution effect.

The second part of yours was on Sanitary Ware. And Sanitary Ware, for those of you who are not aware, we are currently in partnership with Home Depot. They were willing to feature and promote our innovation in a way that others aren't. So in terms of opportunity, we have a variety of additional customers as potential in retail first and...
we haven’t even touched the trade side of the business. But I would say that there is a volume point at which Sanitary Ware does become slightly dilutive to our overall product mix. Does that answer your question?

Thanks. Good morning, everyone. Thanks for all the detail. Two quick questions. Well, may be not that quick, but we will see.

Keith J. Allman
President, Chief Executive Officer & Director
I was going to say ...

Knowing my reputation. The first is just on the sales growth overall in both Plumbing and Other Specialty, you obviously laid out a lot of initiatives and most of them seemed more or less share gaining type initiatives, expansions, product expansions, geographic channel expansions, which all sound great. But I think what didn’t seem to be there was that all these growth initiatives – and you kind of gave out the total segment opportunity over the next three years. It didn’t include actual underlying market growth. So my question is, all of these initiatives seem like they exclude underlying market growth and I just wanted to be clear about that, whether or not that was the case.

The second question is, when you talk about the 16% to 17% margin, the prior question kind of focused on margin dilution with some of the initiatives. But your guidance for this year is 15% to 16%. So it seems like overall you’re still expecting throughout these initiatives some type of accretive effect. And so I was wondering if you could just highlight what was driving that? Obviously volume and leverage and things of that nature.

Richard A. O’Reagan
Group President

Sure. I’ll go ahead and take that. When we talk about overall market growth, it is in the numbers, first and foremost so that part of the numbers that we gave. But in general we are growing at above-market rate with what you see. Guidance is we tend to run about one – I shouldn’t use the word guidance. Let me just say that relative to the marketplace, we’re looking at one point to two points above. And that’s a generality.

And the second part of your question was on the accretive effect. So that one is a little tougher in that as we look at category – much as I answered with [ph] Stephen, (49:33) as we look at the different categories and expansion, we are moving up to 16%, 17%. So as we look at, say, faucets, and continue to grow and take share in faucets, that tends to have a positive effect on that margin and we continue to grow in that area. It’s in some of the lower categories, the lower-margin categories, that we have that dilutive effect.

Good morning. First question or question is really on the Plumbing segment. You outlined a number of international regions that you plan to grow in. Are there any regions that are higher priority that you see more of that growth or is it more evenly distributed between all the different regions that you outlined?
Thorsten Klapproth  
Chief Executive Officer, Hansgrohe, Inc.

Thorsten Klapproth, our CEO from Hansgrohe. Why don't you take that one?

Thorsten Klapproth  
Chief Executive Officer, Hansgrohe, Inc.

Sure, I'd love to. For us, a German company in a small country, we used to have markets abroad. And so as we have seen, we ship our products to 140 countries. We have 34 subsidiaries. But that doesn't answer your question. The question is are we focused. Yes, we are. And last year we did a project for focusing resources. Those countries which Rich has presented to you, at least the most of them are with the highest potential for us at Hansgrohe and Axor when you check the growth rate until 2020.

So why is this and which countries are this? Interesting to know out of this McKinsey project what that Germany, and we have a market share of 20% over there, 22% to 23%, is growth market for us, first. Second, the biggest markets on this planet or for sure growth market is the U.S. And if you have a limited market share in, for example, project business as we call it, here in the U.S. you have a great potential to grow. And the other big country is China. We are very strong in China already. I guess we are the number one foreign brand in China, especially working in this 50% upper market. And these are focus markets.

And when you check Europe, there are a lot of countries, too. Penetration for Hansgrohe is very high. But when you check, for example, Turkey. Turkey is a very, very important market, not only for Europe, but also for all those countries which are close to Turkey. So checking the former Soviet Republic countries, checking Middle East and so on. And Ankara and Istanbul is the hub, the most important hub, for architects and designers in this area and also in other areas, meaning so New York City, some of them are created in Ankara and Istanbul. Interesting to know. 80% of our sales, by the way, we do in foreign countries. Only 20% in our home country, Germany.

Q

Could you talk a little bit about the investment that's required to get to the targets you're looking at both internally? Should we expect a margin dip initially and then a growth? And also, how much of it you need to acquire to achieve these type of growth rates?

Richard A. O'Reagan  
Group President - Global Plumbing

Getting to that directly, there is a very little capital investment required to execute [inaudible] (53:27). What is required in terms of investment tends to be of ground resources and infrastructure. When you talk about, for instance, penetration in the commercial market that's mainly a manpower and resource investment.

I did not in my plan include any inorganic acquisitions. That will be handled corporately in terms of our capital allocation. And I would present an acquisition opportunity and it would need to meet the guidelines. But ultimately, you saw that it was 16% to 17%, which is still better than the existing 15.6%. So that what we will use as our guideline in evaluating any potential acquisitions to be over and above the plan that I presented.

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

There will be a little bit dip for a period.
To build on your last answer, reaching these growth initiatives, does that require significant outsourcing of production to third parties? Or would a large percentage of that have to be done internally, given your statement there’s not a lot of capital spend?

Richard A. O’Reagan  
Group President-Global Plumbing  

My answer to that would be that it is not require tremendous amounts of outsourcing, but it’s again dependent upon what area we’re looking at. In general, we’re not looking at building manufacturing opportunities to execute this. In some cases, it might involve outsourcing, example, Sanitary Ware. But if we talk about some of the core categories, it does not require.

Morning.

Richard A. O’Reagan  
Group President-Global Plumbing  

Morning.

Just a question about putting this in perspective for us. It sounds a lot more aggressive in terms of product innovation, new products, getting into new categories. But you’ve also mentioned in beginning that 30% of your revenues came from new products over the past couple of years. So could you put this in perspective for us, how much more aggressive do you feel that your strategy is now in terms of spending on new innovation? Where do you feel that your mandate perhaps has gotten more aggressive now versus where it was a couple of years ago? Can you put it in perspective for us?

Richard A. O’Reagan  
Group President-Global Plumbing  

Sure. What I attempted to present was the success that we’ve had over the last four years. And that has been with the innovation process that I talked about and it’s been with a very aggressive product introduction and even including category expansion. We’ve gone into Sanitary Ware. So I would consider this to be a continuation of an already aggressive growth strategy.

Keith J. Allman  
President, Chief Executive Officer & Director  

Thorsten, you may want to talk about the focus that we’re putting on our core markets for Hansgrohe.

Thorsten Klapproth  
Chief Executive Officer, Hansgrohe, Inc.
For us, it’s very important to focus. And our focus is, one, innovation, two, innovation, three, innovation. Innovation in product first, innovation in design second and innovation in processes third. Processes also means management style, means checking the competition, means checking the countries, focus on country.

As I said, we have seven focused countries now. One I mentioned. And we have seven key initiatives worked out which we now fulfill very intensively which is deployed in the targets and goals of our people around the world. And this is perhaps a little bit different in style. It’s not different in the work you have to do, but the style is different, yes.

Q

Hi. You talked about your relationship with Home Depot on the Sanitary side. Does that relationship in that instance or others preclude you from pursuing other channels, like in your paint [inaudible]?

A

Richard A. O’Reagan
Group President - Global Plumbing

It does not, no. [ph] On our connection.

Q

A question on the Plumbing segment. You described your market share globally I think as about 12%, the number one player. A lot of exciting growth opportunities. My question was how much should we view Delta and Hansgrohe as separate companies or working together on these initiatives? And I was wondering if you can get specific from a product design process, a brand integration, distribution, manufacturing. Should we view them as two separate entities continuing to pursue their own paths on a parallel basis, or will there be integration across the two companies?

A

Richard A. O’Reagan
Group President - Global Plumbing

I think I’ll take that and then you two can comment. So just for a moment of clarity, when we talked about that position globally, that was specifically for faucets and mixers, so not the entire Plumbing platform. I just want to be clear on that. And then when we talk about Hansgrohe and Delta, they are very much independent companies run by these two gentlemen.

However, my role is to find areas and synergies where they can work together and gain mutual benefit. And so the three of us as others on my platform have sat together and put together what you saw up here and identified individual areas where we can benefit from one another, simple things like combined brass sourcing, looking at what geographies can we cooperate on. So while they are independently and should be viewed as independent companies, we will take advantage of the synergies at the platform level. But I’ll let you guys comment individually.

A

Keith J. Allman
President, Chief Executive Officer & Director

Jai, may be you could...
Jai Shah  
President

Yeah, sure. I’d say generally the view is that market facing we very much operate independently, but the fact that we do share information, market research as well as from time to time lead transfers. In the back office, there are selective opportunities, most importantly probably on the commodity and the purchasing side. [indiscernible] (1:00:12) So there's a significant amount of synergies that we gain there. And then we look at other areas, like technology transfer, shared back office services, especially in our international markets where we, Delta, don't have a significant presence.

Thorsten Klapproth  
Chief Executive Officer, Hansgrohe, Inc.

For me, this question is very important. As Keith said that being together creates value, more value than if we are single. And I’ve learned this in my career. When you check my CV, you can see that I worked for Bosch Siemens Hausgeräte Appliances, number one in Europe and we had 16 brands under our roof. And it was very important to let's say fight in the competition for in the market, but then when you are at home behind the curtain do things together, in factories, in commodities and so on to be strong. And this is, I guess a good idea with strategy.

And as you know, Delta is number one here in the U.S. and it's not our target to be Hansgrohe number one in the U.S. And we are working very closely together in some other countries, big ones, as I said, China, for example. And this I guess is also very good benefit in Masco to really discuss about those synergies which are valuable.

Richard A. O'Reagan  
Group President-
Global Plumbing

I think the one last thing to note is that, as Keith mentioned initially, one of the things that we are driving towards is standardization across our businesses in terms of our Operating System. Things like how do we execute the strategy so we talk the same language. Then they can get together and have that conversation and quickly come to where are those synergies. So driving that standardization in the Operating System in things like value management and value engineering, we will share techniques for that. So it’s processes as well as markets that we see synergies.

Q

Thank you. Two questions on Other Specialty. It seems like the growth focus, unlike Plumbing or maybe some other areas, is still very much organic. So just wondering, one, how are you thinking about inorganic growth in what's still a fairly fragmented market?

And then secondly, you gave the example of Texas as the organic growth initiatives. It's seems like based on the sales opportunity, you're really only assuming that you get a few points of market share over the next few years. So how do you think about when you enter a new market what the target share would be and how quickly you can ramp up to that?

Gary Gessel  
President, Milgard Windows

Thank you for that. As I mentioned, all of the expansion we’ve had over the years has been organic. And we are pretty good at this. We know how to go into a market. And we know how long it takes. And it's a lot of very hard work. We have looked at acquisitions over the years. We have not done one because we just haven't found one that
really meshes well with our culture and philosophy and, frankly, gives us the growth that we think we could do on our own.

And so, yeah, the expansion into Texas is organic. And the ramp up in share, we feel like we're doing pretty well. Frankly, Texas is our fastest start-up that we have ever had in the history of the company. And so while the share is small, it's in part because the market is just so darned large, the opportunity is really very large for us. So we're excited about the next three years, four years in Texas.

Gary talked about the competitive advantage of Milgard being very difficult to replicate, principally around the warranty and service piece together with the dealer base. And that just flat out takes a long time to develop. The good thing is it's hard to replicate. So whilst our growth rate may seem somewhat muted, it tends to be there to stay and then something to build on. So we're careful to build this thing brick-by-brick so that we a positive future going forward. And we don't mess with the MVP, the Milgard Value Proposition.

In terms of acquisition and inorganic growth, we certainly would look at this segment if there was an opportunity. But frankly our significant focus is on globalization and growing our Paint and Plumbing categories as it relates to inorganic spend.

Just a follow up on that. Within Plumbing, it sounded like a lot of the focus is on organic growth. And you talked about $500 million or so of acquisition spend in the next couple of years. Can you again may be amplify where that is going to be focused because it didn't seem like there was much of it in this portfolio.

We purposefully did not put inorganic growth in any of our numbers. As we debated that, I think particularly with John and I talking about it, it's too difficult to estimate. We have a pipeline that we're working through, developing on the front end and then working through. So we're very hot in a couple of areas.

But it's just we felt that it was difficult to put a number in here. Rather, our approach is to evaluate step-by-step as I talked a little bit about in terms of our disciplined approach to acquisitions, to make sure they're in good markets with good tailwinds, good fundamentals, that they fundamentally are bolt-on and can accentuate our growth strategies for our existing platforms. And we're looking at a focus in Paint and Plumbing.

Within Plumbing, it sounded like the opportunities were organically grow the way, toilets as an example, and some of these opportunities that were outlined within Plumbing. Would you rather build it or buy it? How do you think strategically about those two alternatives, especially as you talk about these new markets and extending the business?
The answer in that in any way — and we're not trying to be coy about it is, it depends. In some cases, I really like our model for our toilets where it's a design and buy-sell arrangement. We're designing and bringing our innovation process, as Richard talked about, to this category and we're winning. And it's a low investment for us and so we enjoy some nice returns.

In other cases, particularly when you're talking about geographic expansion into international markets, tariffs and taxes can make it a challenge. And in order to be able to roll at a rate, you need to manufacture there, but in order to manufacture there, you need to be big enough to afford it. So it's a little bit of an endless [ph] do loop (1:07:15) where an acquisition would make sense. So it depends on a market-by-market or a program-by-program basis.

Thank you.

This question is for Gary, again back on Milgard, I think in the past you intended to go East with the market share into some new markets, new geographies and haven't had as much success as you had in the West. Can you maybe just review what happened in the past with those attempts and what's different this time?

Gary Gessel  
President, Milgard Windows

Yeah. You're referring to I'm sure our expansion, our earlier expansion into Chicago and then we pulled back out of Chicago during the downturn. There are some things we learned in that process that really have set the foundation for the growth into Texas. We learned a lot about the products that are necessary, the dealer relationships that are necessary. And those lessons learned are really helping us to do a much faster ramp up and more solid ramp up in Texas. So we feel pretty good about the lessons. We look back on our history and say that was an interesting time for us and a lot of good lessons learned. I don't think that those lessons were wasted at this point in time.

All right. A question for Gary as well. Arrow Fastener wasn't mentioned as a part of this, so I was wondering if you could just give us your thoughts there? It is a little bit different than the other products in Masco's portfolio, with more of a consumables focus. It has a very strong brand name still, but maybe there's been some nipping at the edges from competitors. So I was wondering if you could give us your thoughts on that and how that fits into the growth trajectory for Other Specialty.

Gary Gessel  
President, Milgard Windows

Yeah, so in terms of Arrow, the reason we didn't really discuss it as much, it is the smallest piece of this segment. It's number one in its product category, it's a great company. But it's just as you think about the materiality of inconsequential, the window piece of that segment, is just de minimis.
Keith, we have a couple questions from the webcast. Number one is, can you discuss some details with sales and marketing strategy that you're using to exploit the commercial market? Gary, that's something that you can talk about from a Delta perspective and then, Thorsten, from a Hansgrohe perspective?

Richard A. O'Reagan  
Group President - Global Plumbing 

[inaudible] (1:09:57)

Thorsten Klapproth  
Chief Executive Officer, Hansgrohe, Inc. 

This is a business which is growing very, very rapidly. So we are in a lot of hot spots at the moment, biggest one is China. When you go there and check how many hotels and even big apartment complexes are set up now, it's amazing. The next very important region is Middle East. Go not only to Dubai, but go to Abu Dhabi and check what's going on there, it's amazing. You can have projects with 17,000 bathrooms, great. Some apartments don't even have one bathroom; they have two or three. Excellent growth potential. But this is as we call emerging market. For us at Hansgrohe, sorry to say the U.S. is also an emerging market for commercial project business. So this is our growth potential here in the U.S. to be more a part of middle and high-end hospitality and to get Hansgrohe and also Axor in those bathrooms.

And those issues, for example, the question from you we also corporate, we sit together. We know data based where all those projects are and we discuss internally.

Jai Shah  
President 

The Commercial segment in the U.S. is roughly about a $600 million market. We have about half of the share than we do overall across the business in the Commercial segment. As a result of that, we put a focused effort on investing in that commercial market. We've just recently added seven additional resources, in effect pull a lot of that business and get us on commercial specs.

Our focus is very selective in Commercial. We focus on where we have strength and where our products can be applied, which is a residential product be applied to multifamily housing as well as hospitality. There are other segments in the market that we do have the product for, but that's not where our strength is and that's where we'd be looking at other options in terms of entry in the future.

Keith J. Allman  
President, Chief Executive Officer & Director 

Okay. Any other questions? Seeing none, I'm going to ask Irene a question of the next steps.

Irene Tasi  
Director - Investor Relations 

According to our agenda, we're actually running ahead of schedule so we have a break. So if everyone can be back for 9:35, we'll get going on the second part of our day today.

Keith J. Allman  
President, Chief Executive Officer & Director 

Thank you, everyone.
MANAGEMENT DISCUSSION SECTION

Keith J. Allman  
President, Chief Executive Officer & Director

Well, welcome back. Again, thanks. I know some people have rolled in since I had my morning remarks. I want to thank everybody for taking the time out of your busy day to be here. I really appreciate it. I also would like to thank my team, who just finished a nice morning session and I thought they did a great job, guys.

With that, we're going to move into a discussion about cabinets. I'm not sure if anybody is interested in that. We have Joe Gross here. Joe has recently been named President of Masco Cabinetry. And he is going to come up and share with you his thoughts on the market and the status of that business. So without further ado, I will welcome Joe.

Joe Gross  
President, Masco Cabinetry, Masco Corp.

Thank you, Keith. Again, I'm Joe Gross, newly appointed President of the Cabinet division. I am very delighted to be here today to speak to all you about our turnaround plan for Masco Cabinetry.

First, I'd like to give you a little bit of my background. Prior coming to Masco, I was Chief Operating Officer for Freedom Group Company. That was a firearms roll up that was sponsored by Cerberus. During that tenure, I turned around their flagship company, Remington Arms, to a very profitable company from a company that was losing money at the time. Additionally, there were several under-performing bolt-ons that we took to profitability during that same period of time.

So four years ago I came to Masco. I started in the Tool division. I spent two years there at Arrow Fasteners and during that period of time we are able to increase our operating margin by 40%. Once that was completed, Keith ask me to take the President's job at BrassCraft, our rough plumbing division. I spent 20 months there to January of this year. 20% improvement in operating margin during that period of time.

Additionally, two key product segments gained significant market share. Richard actually referred to one of them in his presentation. Our braided supply lines during my tenure there went from a 7% market share in a very fragmented market to over a 20% share. We were able to improve our margins at the same time we were growing our company very profitably during that time.

So with these two successes at Masco, what is my reward? Masco Cabinetry. Not only Masco Cabinetry, but the job with a very clear mandate, return to profitability now. I've done a lot of turnarounds in my life. I believe turnarounds are simple. I think there's a simple formula to that. You have to have a great plan. We have developed that plan. We will talk about it a little bit today. You have to have the discipline to follow that plan. Every day you have to demonstrate that discipline to follow the plan. And thirdly and probably most important, a relentless execution of that plan. This is how we will return Masco Cabinetry to profitability.
So today I am going to talk about the business today, a little bit about the transformation of the segment and then our go-forward plan. So let's look at how Cabinets fits into Masco as a whole. Cabinets $1 billion of revenue represents 12% of Masco's overall revenue. And of that $1 billion, 55% of Cabinets revenue is in the R&R market.

Let's talk about our brands. We have some of the most recognized brands in the industry. KraftMaid is very well known, if not the most well known brand in the semi-custom remodel market. In my first 10 weeks at Cabinetry, I've met with high officials at Lowe's, at Home Depot. I've also been to many of our largest dealers.

What I hear is KraftMaid is a must-have brand. One merchant went as far as to say I cannot maximize my business without leading with KraftMaid. Very, very powerful brand.

Merillat enjoys the same type of brand recognition in the builder market. The Merillat/Quality, business proposition of the industry-leading lead times is unmatched by anybody in the industry. This brings significant value to our builders.

Moores is our UK brand. We're not going to be discussing Moores in today's presentation.

Let's take a look at how our revenues break down. We're very nicely diversified. About half of our revenue is in Merillat/Quality, the other half of our revenue is in KraftMaid. Of our sales segment, we have 45% of our business in the dealer channel. The dealer channel is the largest channel and it is the most profitable channel. This is very favorable sales mix for Masco Cabinetry.

So today I want to talk about how we've gotten to where we are today. Don't really like to focus on the past so much, but I think it's important for us to look at that. You're going to see that we've been unusually affected by the economy. We also made some internal decisions. After discussing that, we'll talk about how we're going to go forward. So let's look back at the past 10 years.

Here you can see how the housing market was affected by the downturn. Very, very steep decline. During that period of time, very, very aggressive pricing, tremendous price pressure on all manufacturers in order to try to keep their factories full. There was significant capacity out there to fill these 2 million plus in a very, very robust economy in 2005. Very significant downturn over a three-year period, four-year period, all the way down to 500,000 starts.

The recession just didn't affect the starts; it also affected the R&R market significantly. When you look at lost equity in homes, double-digit unemployment, low consumer confidence, a lot of people chose to put off projects in their homes. Now we're recovering. Pricing and promotion activity is stabilizing back to industry norms. And just recently, the 2014 Remodeling 360 Report showed consumers are spending significant more in their kitchen remodels than they were just two years ago.

How did Masco Cabinetry respond to the downturn? In 2006, we had $3.3 billion of sales. $1 billion dollars of that sales was divested of, the ready-to-assemble market. We chose to exit our [indiscernible] business.

The economic downturn we had just talked about resulted in another $1 billion in lost sales. During this period, we decided to integrate our businesses. Successful in many areas there, we reduced $200 million of fixed costs. We rationalized our plants. We right-sized our organization. However, during that period it did cost us share.

So now we're at $1 billion dollars and all of you know we've lost $30 million in 2014. Let's talk about the major factors there. There were two of them. We were not at the right pricing and promotion levels with KraftMaid. Again, that resulted in share loss for us.
We had ERP implementation in 2014 in our Merillat/Quality factories, resulted in a lot of inefficiencies and disruption to our delivery model. Again, representing some share of loss during that period of time.

So where do we stand today? We have seven manufacturing facilities. We have two IT systems with no need for any further implementations. We have stabilized our pricing and promotions in the retail channels and we’ve replaced some of the senior leadership team.

So most importantly, let’s talk about that leadership team for a minute. Keith was talking about that on his team it’s almost entirely all new with the exception of one person. Four people out of eight on the Masco Cabinetry leadership team are new to the positions. Three of them are new to Cabinetry since 2014. We have [indiscernible] (1:24:33) our new CFO. Comes to us with outstanding experience in the automotive industry. Viren Shah brings tremendous retail experience having spent significant portions of his career at Walmart. He is our new Chief Information Officer.

Let’s look at what’s driving 2015. As you can see, our turnaround is on the way. From 2011 to 2013, we improved operating profit by $90 million. We talked about what impacted 2014 and now we’re on plan to make at least $10 million in 2015. More importantly, we’re setting company up for further profitable growth.

So how are we going to do this? Take a look at our priorities. We have three specific priorities: recover share, gain share in Merillat/Quality as well as in KraftMaid, a specific turnaround in our direct-to-builder channel and to improve our margins across the board.

Turning KraftMaid – well, share gain specifically here. I talked about being out with our customers. We’ve developed the strategy around there. Four things I heard very, very consistently. We need channel differentiation. Products have to be on trend. This is a fashion product. Appropriate pricing and promotions to drive sales and foot traffic and reliable delivery performance.

Looking at KraftMaid specifically, this is how we’ve responded to these needs. We introduced Vantage exclusively into our dealer network, KraftMaid Vantage. This allows for modified heights and weights that are not available in retail setting. The traction KraftMaid Vantage has gained, already it is 55% of our dealer sales at this point. KraftMaid Vantage is driving traffic to our dealers.

Home centers want to lead with a brand. To respond to that we’ve launched branded vanity programs in both Lowe’s and in Home Depot. We are returning our level of promotions and pricing at these to drive additional sales in the home centers, and we are filling our retail gaps. These are the initiatives that are important to KraftMaid on the dealer side and on the retail side.

Let’s look at Merillat/Quality. Dealers want a partner that drives traffic through their showrooms. They want cabinets that allow them to do up-selling and they want to reach into new segments in their own geographies. We responded to these demands.

Merillat has just finished its largest launch in history. The significance of this is it allows our dealers to reach into a broader spectrum of the R&R market that they aren’t touching today. Of course, we have coupled this with our industry-leading lead times. We’ve refocused on what got us there.

Moving to priority number two, the direct-to-builder turnaround. This channel is the most price sensitive. Most of the price pressure comes in this channel. This channel is also the most challenging to serve. We’ve restructured our operating model. We’re driving our operating model to a higher and higher variable model so that we can
respond to the marketplace properly. We’re systematically raising prices in markets that we probably dipped too low. To give you an example of that, some of our pricing increases over the past six months, it has been has highest 25% and it's sticking. This should demonstrate just how far out of balance we were a year ago.

Let’s move on to the third priority, improving margins. This turn around is going to take a very, very aggressive approach to margin enhancement. We are already seeing a restructuring in our SG&A pay dividends for us. We believe we can continue to optimize that part of the organization. Pricing we just talked about. Now with our ARP implementation behind us, we are really focusing on cost of sales, we’ve identified over $50 million of opportunity.

Not all of that is going to happen this year, but we do think in second half and over the next couple of years, we are sure of that. I went to every one of the facilities in my first 10 weeks. I come with a pretty strong operations background. I see opportunity beyond this $50 million. It’s a matter of prioritizing and executing against that.

What does 2015 look like? Again, with our focus on gaining share, on the builder turnaround and on margin improvement, we are well on target to meet our minimum of $10 million. I believe there is some upside to this. If the economy holds, current trend of cost out improves, we are on a pretty strong trend right now and if that can continue at that rate and if our share gain initiatives accelerate.

So let’s wrap this up. In summary, we are turning the business around. We’re on track for achieving our 2015 goals. The new management team is in place. And I know how to drive a turnaround. We’ve identified what’s important to the brands, we’ve identified what’s important to the channels in order to regain share. The progress we make against the plan that I just laid out will help determine our current path for future value creation beyond 2015. Thank you.

Now, I want to introduce Jeff Filley, who is going to cover our Coatings Group. Jeff is the President of Masco Coating.

Jeff Filley
President, Masco Coatings Group, Masco Corp.

Thanks, Joe. Good morning. I’m excited to share a little bit with you today about Masco’s Decorative Architectural product segment. This segment consists of our Coatings platform, Behr and Kilz, and our decorative hardware platform under Liberty. By way of background, I’ve been with Behr for 30 years now. I started with Behr in 1985 when we were a small $10 million stain company located in Southern California. It’s been a nice ride.

I’ve chosen three things to talk to you about today because they’re central to our growth strategy and I think to your story about this business. First, how Behr will extend its leadership position in the consumer paint segment. Second, we will talk about how we plan to double our pro paint business and pro market share. And, third, how we will grow our Kilz and Liberty hardware businesses. I will also talk a bit about our relationship with our channel partner, the Home Depot, how our strategies are very much aligned and how this relationship is a strength.

So let’s get started, As you can see, this segment is important to Masco’s overall profitability. We represent 23% of Masco’s revenues and over 40% of Masco’s profits today. And I think a key takeaway here as well is almost 100% of our sales are in the repair/remodel segment, which has been historically quite a bit more resilient over a long period of time than new home construction.
So we are very proud of our brands as they all are category leaders. The Behr brand, as I said, is the leading brand in the consumer paint segment in the U.S. and Canada. Behr is the quality leader and has been the quality leader for quite some time in the industry. And of course, we have a strategic partner in Home Depot.

With respect to our Kilz brand, Kilz is the leading primer brand in North America. And in Liberty Hardware, they’re leaders in decorative hardware, bath hardware and cabinet hardware. So a great stable of brands. I’m especially proud of our 37-year relationship with the Home Depot and our track record of innovation. We started selling to Home Depot back in 1978 when they opened their first store in Atlanta. And today we’re in all 2,000 U.S. Home Depot stores, we’re in all Canadian Home Depot stores and essentially all Home Depot Mexico stores today.

With respect to innovation, I would say our first real breakthrough innovation was when, in 1986, again, we were a stain company, we decided to enter the paint space. We formulated a great paint, called Behr Premium Plus. And it wasn’t the product that was really the innovation, it was what we did at point of sale in Home Depot. We introduced color matching technology back in 1986. So consumers could walk into the paint store with any color swatch, we could color match that in 60 seconds and formulate that color into Behr paint.

This was really the launching pad for our Paint business. This technology at point of sale and has enabled Home Depot to raise the retail price of this product well above what the industry was selling at the time.

In 2009, we introduced our Paint & Primer in One, this is Behr Premium Plus Ultra. Also positioned in the $30 plus per gallon, above Premium Plus. And the innovation here was this product was a paint and primer in one. So for the consumer, the consumer benefit is, for most paint projects, they didn't have to separately prime and then paint. Consumers loved it, it saved them time and money. And this line today represents over 40% of our total paint sales. It's also been rated number one by Consumer Reports many times over.

In 2013, we introduced our Behr Premium DeckOver product targeting distressed deck. This product has also been a big hit in the marketplace. In fact, Home Depot Canada recognized this product as its Innovation of the Year in 2013. This product today is one of our top-three selling SKUs across our entire line.

In 2014 we introduced Behr Marquee, our interior and exterior paint. A lot of technology in this can of paint. It is the best paint we’ve ever made, we believe the best paint on the market today. Consumer Reports agrees; they just rated Behr Marquee number one rated interior paint in the industry in its first year of eligibility. So it replaced Premium Plus Ultra as the number-one rated product in the industry. And also and importantly Home Depot recognized Behr Marquee as its Innovation of the Year in 2014. Again, another step up in retail price points to a $40 plus per gallon of paint.

So what else can I say about Behr Marquee? Well, I’d like you go out and try it. It's worth every penny. You will love it. And we're very excited about the trajectory of that new paint line. So how have we performed? Well, we delivered consistent profitable growth. And while our focus today is more on growing profit dollars, we've done a nice job maintaining our profit margins in the 18% range.

So let's talk about our growth plan. As I mentioned at the outset, these are our three key growth strategies and I am excited to drill into each in a little more detail. But first let me give you a quick overview of the U.S. Architectural Coatings market. It's a large industry, $11.5 billion. Broken down between the consumer segment, the DIY segment and the pro segment as you can see the pro segment is a bit larger and today the pro segment is actually growing faster than the consumer side.
And while this industry has been more resilient than most building products categories, especially during the housing downturn, the industry did lose about 20% of its gallons peak to trough. And while we are in recovery today, we're still about 10% below the peak and three years away from full recovery. We expect this industry to grow at about 3% over the next three years.

So talking about strategy number one, how we will extend our consumer leadership position. As you can see, we've got the leading share in the U.S. market and quite a big share lead over the number two player. We've grown up really on the consumer side of the U.S. paint market, focusing principally with Home Depot on the DIY consumer.

We love this segment of the market. We know it well. And I love it because – and this may be a bit biased, but the reason I love it is because I believe it's the real sweet spot of all home improvement projects. Think about it. It's a low-cost, high-impact DIY project, projects that most home owners can do. So it's been extremely resilient. And I really came to appreciate it even more as the housing downturn came and this business just chugged along.

You know as I look at some of the macro indicators today, we recently saw sales of existing homes pick up. And this has traditionally been a leading indicator for this segment of the business and our business. So when you think about it, you are getting ready to sell your home, you likely put a fresh coat of paint on that home. You sell it. The new buyer comes in, doesn't like the color you picked and they repaint. So, sales of existing homes has really been a great leading indicator for this business.

So we’re in a great position today in the market. We're coming off a couple Innovation Awards with Home Depot. We’ve had leading-rated quality products in the industry each of the last six years. So we do make great paint. We've got a great R&D capability. We look at our Vitality Index. 56% of our revenues are represented by products we’ve introduced in the last three years. So we're in a good position for sure.

And hot off the press, two weeks ago J.D. Power came out with their Annual Paint Satisfaction Study. And Behr was rated number one in that paint satisfaction study for interior paint. And I pulled a couple of key points from that study so that you could see the strength of this Behr paint brand. And for me the key takeaways and one area that we are really focused on is all consumers out there considering a paint project, 60% consider the Behr brand, by far over and above the second rated brand here. And conversion rate, 65% of those who considered the Behr brand, bought the Behr brand. So we looking at that and we said, wow, this is a great opportunity for us.

How do we increase that conversion rate and extend our leading position? So we drilled down into some research and found that certain consumers didn't buy our product because they couldn't find the paint color they were looking for. And this was understandable to us as this Color Solution Center was installed by us in 2003, so it's old, it's dated and the colors I think our out of touch with today's trends.

So after considerable focus group research, a lot of back and forth with Home Depot and 180 store tests in Canada last year that has significantly lifted our sales, we decided to start rolling this new Color Center out in all U.S. Home Depot stores in January. And by the end of this month, by Memorial Day, this new fixture will be rolled out in all U.S. Home Depot stores coupled with a brand new advertising campaign to let consumers know there's something new at Home Depot.

We are excited about this new Center for several reasons. First of all, new color collateral, stripe cards, color cards, we have a section of Timeless Colors. We have a new Behr ColorSmart kiosk where you can walk up to that kiosk, scan the barcode on the back of your color swatch and preview that color in assorted room vignettes.
We're also very excited that our space in this 30-foot Color Center has grown from 19.5 feet to 24.5 feet. So we now occupy over 80% of the new Color Center. We think that's a big advantage. And finally, and I will highlight it here, magnify this new paint center within the fixture.

As you can see, Home Depot has positioned the three Behr paint lines as their best paint. This is a real departure from their historic positioning of their brands of our brand and very overt and we will take advantage of this. And I ask you on your next visit to Home Depot to walk into the paint department, engage a Home Depot associate and ask them what is their best paint, what brand do they recommend? And if we've done our job and this messaging really carries through, we're hoping you're going to get the right answer.

So our key execution initiatives. I think to summarize it best, to improve the shopping experience. And we believe this new Color Solution Center will really do that. Combined with our new advertising campaign that you'll see in a couple of weeks, we believe we will drive new shoppers into the Home Depot stores, that we will convert those consumers at a much higher rate, that we will drive Home Depot's gallon sales up, which will lead to growth of our paint sales.

As you can see, we're expecting significant growth over the next three years, $150 million-plus of growth, this is a growth rate posted two times what we anticipate the industry growth rate to be.

So switching to our second strategy and that is to grow our share in the pro paint segment. As you can see, the pro paint segment is large, we like that. It's growing more rapidly today than the consumer side, we like that. We also like the fact that while our sales growth in this segment are growing rapidly, we still only have 4% share. So a lot of runway, a lot of headroom for us to grow.

I also like this segment, the pro paint segment, because it's also a strategic priority of Home Depot's and of course ours. So we're very aligned strategically. We have very little channel conflict. I think that's another advantage that we have. And together we're focused on residential repaint and property management. We believe that this is the market that we can serve quite well today.

And while I'm not going to say that we won't ultimately get into the commercial paint business or new home construction, as you can see, we can address 50% of the pro paint market by focusing on residential repaint and property management. Since we really started focusing in this segment in 2011, we've been growing at a rate well in excess of 20% per year and we expect to grow at this rate over the next three years.

Before I leave that pro paint segment, I want to step back and talk a little bit about the opportunity as I see it. Today, most of the sales in the pro paint segment run through company-owned paint stores. We aim to change that dynamic. When we look at our opportunity, we have 2,000 Home Depot stores.

Home Depot offers a one-stop shop for property management, general contractors, who come in and buy assorted other products. So I think that's a real advantage for us and for Home Depot. And Home Depot today has two great brands resonating very strongly in this pro space, the Behr brand and the Kilz brand.

We're also finding that given the rapid consolidation in this industry, when we go out there and talk to pro painters, they are looking for alternatives today. They are very open to talk to us. So summarizing our key execution initiatives here, we are working almost daily with Home Depot to improve our transaction process and improve our service model. So when we're engaged with pro customers, they can come into the store and have a great experience. So it's a daily activity. We've made great progress and I think that is what is really going to grow our share here.
So explosive growth going forward. A $125 million to $175 million, a compounded growth rate of 20%. And to provide some perspective, if we were to grow 20% per year for the next five years, that would still leave our share at about 10%. So a lot of room and a lot of upside.

So strategy number three, leveraging our great Kilz brand. Kilz, as I said, is the leading primer brand in the industry and a very strong platform for growth. Some have compared the Kilz brand to the likes of WD-40, Duct Tape, brands that every retailer has to carry and every garage you see has these brands in it, including Kilz. So a great platform, as you can see. We're sold across 25,000 outlets. So our execution initiatives are, first, defending our core primer business and extending our lead there and transitioning the Kilz brand into other categories.

We've been in the paint business. The Kilz brand has been in the paint business since 2003. We're going to put more resource behind that to grow our paint business. We're also in floor coatings, concrete coatings and waterproofing categories today. And as I said, looking for additional adjacent opportunities, both through organic means and also looking at acquisition opportunities. We're going to grow here $80 million to $110 million over the next three years. A great platform for growth.

And finally, Liberty Hardware. We will extend and leverage the Liberty Hardware business. We're on a roll here at Liberty. We had some great category wins last year, nice growth last year and a lot of momentum carried into 2015. Built mostly on the design and innovation strength of Liberty, we have a Design Center in Chicago. Our team is constantly looking at new shapes, new finishes, new materials.

And in this highly SKU intensive category, a lot of pulls, a lot of nobs, different finishes, et cetera, Liberty's strength is in category management. They are the category captain for several retailers. They manage the bay and make sure the retailers are in stock. Liberty does a nice job of leveraging Masco sale on procurement and also with Masco’s services in-store. So like Kilz, we are going to focus on our core business and we're going to extend our business into new channels, online. New categories, we got into the shower door business last year, and in new geographies with our partners.

So here is a look at the roll up of our three year sales plan. Growing our business from $2 billion today to over $2.4 billion in three years. We talked about the revenue driven by our consumer business, our pro business and diversified channels. This is a 6% to 9% compounded annual growth rate. And we expect to keep our margins in that 16% to 18% range during this period.

So in summary, we feel very good about our business today. As I said, Behr has a very strong track record of execution. Behr has a very good partnership and is aligned with Home Depot. We’ve identified how we're going to grow our gallons in both the consumer segment and the pro segment and finally how we will grow our Kilz and Liberty Hardware businesses.

So that concludes my remarks. And I think we're going to transition to Q&A now.

Keith J. Allman
President, Chief Executive Officer & Director

Thank you, Joe. Thank you, Jeff. And with that, we'll start off with some Q&A.
QUESTION AND ANSWER SECTION

Keith J. Allman  
President, Chief Executive Officer & Director  
Back of the room?

Thank you. This question is for Joe on Cabinets. Joe, could you talk a little bit about where you think normalized margins in the Cabinet segment will be how long it might take to get there? What kind of capital needs are needed to get to normalized margins in Cabinets? And then how important price versus cost containment is in order to achieve those margins?

Joe Gross  
President, Masco Cabinetry, Masco Corp.

Sure. Industry-wide the margins probably range between 7% and 10% as a normalized level for the Cabinetry business. Will we need capital to get there? Are we going to get there? We’re pretty well sat where we -- I think our plan is in place. What we do need in order to improve our margin outlook is all built into the plan that we presented earlier today.

And I think pricing as well as cost containment, they both play a critical part. You saw in some segments we were 25% underpriced out there in the marketplace. That pricing discipline is critical. For our specific situation, I do think that cost controls probably allow us our biggest lever to pull over the next 10 months to 12 months for sure.

Thank you.

I had a question actually for Jeff. When you look at the volume growth for paint, how do you characterize the mix shift and the price impact of that?

Jeff Filley  
President, Masco Coatings Group, Masco Corp.

Of the industry?

No. For you, as you look at your growth and growing faster than the industry, how do you look at the mix shift? Because you’re looking at upgrading the product mix and offering products that are more expensive.
Jeff Filley  
President, Masco Coatings Group, Masco Corp.

Yeah.

How does that play into the growth and in margins?

Jeff Filley  
President, Masco Coatings Group, Masco Corp.

Well, first of all, the mix shift, as you said, we have been successful moving up from Premium Plus to Ultra, now to Marquee. So on the consumer side, we're seeing a nice trade up there. And that's one of the things that the Behr in-store sales reps do a good job. We have 450 sales reps. We call them our Secret Sauce. They average five stores per rep. They're in every store every week training Home Depot Associates and gauging consumers. So they do a very nice job of driving that trade-up.

As we've entered the pro paint space, we do sell a lot of the premium products into certain segments of the pro, but overall that mix is probably a bit lower on the pro side than it is on the DIY side. The margins at the higher price points are better. The margins in our pro business are a bit below what our consumer margins are. We've talked about that on several calls. But certainly the pro business requires more investment, more resource, but certainly accretive from a profit dollar perspective, an ROA perspective. And as you saw, Home Depot wants that pro customer so it's very accretive from a relationship perspective with Home Depot.

Got it. Thanks for the excellent color. On the Paint business, staying with pro, you are looking at $175 million in sales in the next three years which is pretty fantastic growth. You're outpacing the category. Like every place you guys are at, it's a tough category and you face some pretty formidable competition. I was hoping you could step through kind of promotional spend you need to invest and from a block and tackle perspective in terms of execution what do you need to do to get that gallon growth in the pro channel? You've got a great strategic partner. How do you execute daily to drive volume growth in the next three years?

Jeff Filley  
President, Masco Coatings Group, Masco Corp.

Yeah, so our products line up extremely well with the leaders in the pro paint space from a quality standpoint and certainly from a value standpoint pricing. We do offer discounts through Home Depot for the pro painter. So we found that the value proposition is excellent. So that's one.

But I would say that the big challenge for us and for Home Depot is really refining the way we service that pro customer at Home Depot. We do job site deliveries, but the transaction process is something that's still evolving. And we've come a long way and there is a ways to go. So we are getting better. We are making those transactions more efficient and that's what we're finding today if we can knock down some of those barriers, like credit, there are several others that we are actively working on, that's going to be the key to really change the game.
Thanks. First for Joe. You highlighted about a $50 million opportunity of cost improvement in the business as well as a $10 million profit goal for 2015. I was just curious, how much of the $50 million would be realized in the 2015 performance? And then would the rest of that $50 million be over the next – in 2016 and 2017? That’s the first question.

Joe Gross
President, Masco Cabinetry, Masco Corp.

Yeah, there’s certainly some of that identified cost-out opportunity is in 2015 leading to the $10 million. Again, I talked about if we can accelerate that, we have some upside on that. It’s really hard to discuss just exactly how much is going to hit this year versus next year. I think we have a relatively smaller portion of that into this $10 million, so that additional upside is probably beyond 2015. But I do think that that momentum will carry into 2016 and we should be able to enjoy a lot of that going forward.

Great, thanks. And then just on the Paint business, a question for I guess John and Jeff. You kind of highlighted at the end of the presentation roughly 18% margins, which I guess is a similar number that you’ve done in the last couple of years, so just conceptually how to think about achieving that between the different growth initiatives. Is it that you kind of have your core business, which is highly accretive and that’s half or more than half of the dollar sales growth and then that’s more accretive and then may be a little bit on the dilutive side of the pro business and it roughly offsets? I mean, conceptually is that the right way to think about continuing to hit the 18% plus or minus?

Jeff Filley
President, Masco Coatings Group, Masco Corp.

Go for it.

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

Okay. Yeah, [ph] Mike, (2:04:25) I think conceptually you’re heading in the right direction. As Jeff alluded to, the core business is the more profitable segment of the Paint business. The pro business is margin dilutive. And so as those two grow at varying rates, that kind of leads us to that approximately 18% margin over time.

Yeah. Thanks. I had a question on Cabinets and then one on Paint. In Cabinets, can you talk a little bit about the 7% to 9% normalized margin that you discussed earlier? And how much of that, if you could talk about the difference between the business today and let’s say, 10 years ago or even a little bit earlier when you had substantially higher margins than that, if you could sort of talk about why we are not talking about perhaps mid-teens as ultimately being a more normalized type margin in Cabinets?

And then secondly in the pro paint business, can you talk a little bit about you mentioned credit to the paint pro painter, which I agree is very important. Is there anything changing there that’s going to be specific to paint which
you think may be able to benefit the pro business? Or is this something that's just more dependent upon more sort of gradual or holistic changes at Home Depot in terms of how they're going to approach credit to their contractors?

Keith J. Allman  
President, Chief Executive Officer & Director  
Start with the Cabinets first, Joe.

Joe Gross  
President, Masco Cabinetry, Masco Corp.  
Sure. Certainly our business profile has changed over the last 10 years. We've talked about some of the businesses that we divested of, the economy has changed the — take per housing is changing to some extent. All of those things kind of affect — the amount of competitors out there, all of those things affect the normalized margins. I don't think we will be able to generate the type of leverage that would return us to 2006 levels in the next two years or three years. Certainly, I just don't think the economy will support that. And I think you would have to get that type of leverage to even start talking at margins higher than we discussed.

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP  
[ph] Stephen, (2:06:40) maybe I can add to Joe's comment. So if you think about the 15% margins that we are generating at the peak of the cycle, you've got to recall that that was an environment with 2.2 million housing starts and a very, very robust remodeling market as well. Basically we were out of capacity in all 19 of our facilities, Joe's got seven now. So if you think about that environment that we were in, we're not predicting the Cabinet market to return to those levels any time soon. So, is there upside to this 7% to 9% longer term? Yeah, I do think there is probably some upside to that. But I think Joe has appropriately characterized it for the next several years.

I'm sorry....

Keith J. Allman  
President, Chief Executive Officer & Director  
The credit question.

Jeff Filley  
President, Masco Coatings Group, Masco Corp.  
Frankly, we're not competitive today through Home Depot with the Home Depot credit policy, we're working on that impediment today, especially for the larger contractors who have several jobs going and they need job accounts. So that's something that we and Home Depot are working a solution for. And I think that's going to be a key breakthrough for us when we solve it.

Keith J. Allman  
President, Chief Executive Officer & Director  
Over here?
When you think about how you communicate with the people in the field so that you’re sure to stay on top of the promotions and pricing environment out there and not lose any of the sort of benefits and the improvement that you’ve already realized, especially as things continue to move along and improve?

Joe Gross  
President, Masco Cabinetry, Masco Corp.

We have specific sales organizations that are for each of our channels. These folks are staying very, very close to our customer base, understanding exactly what competitors are doing, understanding exactly what we need to do to drive closes, what we need to do to drive business into the Cabinets, how we need to present our offering to do up selling, if you will.

So it’s very typical. I mean, we have built those relationships with our dealers. We got those relationships with the Big Boxes so that we constantly manage the amount of activity. We are taking a very balanced approach to our pricing and promotion. We feel that it is starting to generate the growth that we’re looking for. It is absolutely doing that and it is profitable growth.

Question in Cabinets. Where do you stand on capacity utilization right now and there will be any more capacity reductions near term as part of your [ph] attendant. (2:09:30)

Joe Gross  
President, Masco Cabinetry, Masco Corp.

Yeah, I think we evaluate all parts of our business constantly whether it’s our SG&A structure, whether it’s our sales structure, whether it’s our capacity out in the fields. I’m into this business for 10 weeks now. We are looking at how best to serve our marketplace where our growth is. Remember, we’re not just trying to turn a small profit this year. We are setting up the Cabinet business for the future.

I believe that we can meet our goals with our current structure. I think we can improve on these goals in 2016 with our current structure and I think that we could react to the marketplace to support growth.

Is it fair to say you’re running below where you need to be in terms of capacity utilization right now?

Joe Gross  
President, Masco Cabinetry, Masco Corp.

I’m sorry?

Is it fair to say you’re running pretty far below where you need to be in capacity utilization right now?
Joe Gross  
President, Masco Cabinetry, Masco Corp.

I wouldn’t characterize it as pretty far below. At this point, I’d say that we do have excess capacity, okay? But the way we restructured into more variable models, we are controlling the cost with that excess capacity. So don’t specifically attach excess capacity to excess cost.

Another question for Joe. How much of the share decline in the dealer channel in last few years would you attribute to the lack of channel differentiation? And how much improvement have you achieved thus far with your recent initiatives, like the KraftMaid Vantage?

Joe Gross  
President, Masco Cabinetry, Masco Corp.

Yeah, I think we talked about the share decline, $1 billion of our revenue went away with some divestitures, another $1 billion with the economy. So when you look at share, we have not lost dealers. We’ve lost in some cases during our ERP implantation, some share of wallet at those dealers. But none of our dealers have left us. We have a specific program to rebuild that share. We believe that’s happening now.

Irene Tasi  
Director-Investor Relations

Over here?

If we accept the 7% to 10% margin in Cabinets over the next couple of years, I guess you could argue that would get you to pretty close, industry would be pretty close to maybe mid-cycle. What kind of returns does that imply? And how do you think about that as far as an attractive business? Is it, with those type of returns, be consistent with the other segments we’ve talked about and the opportunity we talked about?

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

Obviously, [ph] Dennis (2:12:20), it’s a little bit different than the returns in the other segments. We have a fairly heavy capital investment in our Cabinet business. And so we think longer-term we can do a little bit better than the 7% to 9%, 10%. If we can hit some of the upper end of that range, we think that’s an acceptable investment. If we can’t get the returns back to what we think and our shareholders think are an acceptable level, then we have to consider whether there is a different alternative for this business.

A question for Jeff and Joe. For Jeff, the Color Centers that you’re introducing, the tests that you have so far. How much delta has that driven on your unit growth there versus the category? And maybe you can give us also some update on the rollout schedule for that across the rest of the Home Depot stores.
And for Joe, a bigger picture question. You touched on a ton in your presentation. So you touched on the product redesign and relaunch, channel differentiation, cost-outs, pricing and promotion. So there's obviously a ton in your plate, a ton to do here. I mean I know you're in early days, but where is the focus? Because you can't tackle everything at once. And what are you focusing on, what's going to yield the most returns in the near term?

Jeff Filley  
President, Masco Coatings Group, Masco Corp.

On the Color Center lift that we're seeing in Canada, that's been out there for the better part of the year. We have to be careful when we talk about year-over-year improvements, particularly as it relates to the messaging out of our channel partner. So rather than give a specific number of what we're seeing, I will talk to it in very basic terms.

If it wasn't wildly successful, we wouldn't be making this kind of tens of millions of dollars of investment to do it and we wouldn't have the support of Home Depot together to do that. So we're very, very excited about the Color Center as we've talked about from a Behr perspective with the increasing of the linear foot. Well, it's not directly correlated obviously to POS, it helps. It's important that the positioning of the Behr brand; that's a significant decision by our channel partner to say we are going to position this as our best paint. That's significant.

When you couple that with the awards and the press that we've gotten, both in the service and the quality front recently, and then most importantly the advertising blip that you're about to see. We feel good. We feel good about the jump off point of the spring selling season. And we feel good about the long-term business with regards to both margin and growth.

So we'll stay a little bit away from the specifics. But I think the fact that we are moving in that direction says that it was pretty good. Joe?

Joe Gross  
President, Masco Cabinetry, Masco Corp.

So you all know that in a turnaround you can't really act sequentially. I think we have dedicated teams towards all of these strategies, these strategic priorities that we talk about. But I think one thing that I tried to make clear during the presentation is the foundation is really been laid. We've reduced our factory footprint. We've started to see some of the fruits of that. All of them will continually improve and we will focus a lot of those areas. But the most impactful for us, I think there's really three areas. We have to continue on our cost-outs. We have to have the discipline in pricing. And overall our operation service model has to improve from the implementation hiccups in 2014.

A lot of these things are already in place and we're beginning to see some of the fruits of that. All of them will continually improve and we will focus a lot of those areas. But the most impactful for us, I think there's really three areas. We have to continue on our cost-outs. We have to have the discipline in pricing. And overall our operation service model has to improve from the implementation hiccups in 2014.

From a product perspective, Vantage is launched, Merillat is launched. We have some product fill gaps and so and so forth, but we're well positioned. So again, I think the foundation is really solid for this and we have the teams in place to execute this.

Q

A follow up for Joe. That $50 million in cost outs, that's a big number when you consider that's in addition to some of the SG&A and pricing optimization that's occurred. And you're talking about seven plants now. So what so obvious to you as you walk through these facilities that there is that amount out there? Can you give us some concrete examples? Is it process automation, is it reordering of workflows?
Joe Gross  
President, Masco Cabinetry, Masco Corp.

Yeah. So, factories have a tendency to recover somewhat slowly. A lot of practices were put in over the last year that may be have been manual practices, were a result of what the ERP systems didn’t do that it should have done when it was first turned on. Sometimes it’s hard to get away from some of those practices, especially if you’re internal. The battle scars are so deep you don’t want to take some of that away.

An external person coming in can see that very obviously. Asking why all the time, why are we doing that? And then that gets that culture going to say, okay, let’s look at all of the things we did. Did we do those as a result of some hiccups and they no longer add value to us, are they adding value to the business. So, yes, seven factories is not 19 factories. But we still have a very significant cost of sales to go after. So I think the $50 million is real.

Talked about expanding Paint and you identified the pro and you talked about adjacent categories as well. You talked about limitations with Home Depot with credit with just what they’re structured for in their business. Curious on two things. One, the opportunity for acquisitions to help you achieve those goals and then also opportunities outside of Home Depot to grow that business which has clearly been an asset to get you here, but how you think about expanding beyond that to achieve the growth opportunities you have in the business?

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

I’ll take the acquisition question and then we will talk to you about growth outside.

Okay.

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

We talked about in general terms the amount of capital that we anticipate allocating to acquisitions. While we are open to acquisitions across all our platforms and principally we’re looking for bolt-on acquisitions and we have talked about in prior calls, the nature of them would be that they would be rather small and suspect they’d be bigger than Endless Pools, but not necessarily significantly large investments.

The place where we’re looking in particular is in Plumbing. We’ve talked about that in terms of geographic access and in some cases technology access to shorten the learning curves. We talked about some commercial penetration. In some cases, there is differing specs and products in the commercial.

So we may look at opportunities from an acquisition point to get some of hose technologies, importantly to enable our organic growth strategy. So we’re looking to be very selective with our deployment of capital in the space, Plumbing being a very attractive market for us, given our global scale, the fact that the margins are robust, et cetera.

We are also looking from an international perspective in Paint. You didn’t see that reflected in our numbers. You haven’t seen any revenue reflected in our numbers on the acquisition side. We have a beginning presence...
internationally. We’re starting slow. We are being very careful. We are making sure that we keep the value proposition of Behr Paint and the innovation up to speed. We have some business in Chile. We have business in Central America. We have some business in China. So we would be interested and also looking at being able to inorganically start to globalize Paint.

And with that, I think the question was around some options to grow outside of the Home Depot that we’re driving.

Jeff Filley  
President, Masco Coatings Group, Masco Corp.

Yeah, I’ll start on the pro side. As I mentioned, together with Home Depot we think we can get at of about 50% of the addressable market in the U.S. Looking at the right side of that pie chart, the new home construction and commercial, a lot of that business is transacted at much lower price points where there’s not enough margin for us and for Home Depot to really go after that in a meaningful way.

We’ve had discussions with Home Depot. And what happens if we do get our products on those new home construction or in commercial, the likelihood that we get the repaint goes way up. If we don’t get that initial sale – and Home Depot understands this, if we don’t get our products on that initial construction project, the likelihood that we will be part of the maintenance for that property goes way down. So we are I think very much aligned with Home Depot on that front.

As it relates to diversification outside of Home Depot, really beyond the pro with our Kilz brand, we think we have a great opportunity. We have a new GM running that diversified channels vertical, focusing on driving the Kilz brand into new categories, new adjacencies and into new markets.

Irene Tasi  
Director-Investor Relations

We have a question here from a webcast participant. For the Cabinets business, Joe, can you please compare the dollar value of Cab industry use for single-family housing start versus a multifamily housing start?

Joe Gross  
President, Masco Cabinetry, Masco Corp.

Sure. Of course, the value of our cabinets is highly related on what you choose. There is a very, very wide range to spend on cabinets. You can spend $100 per box. You can spend $2,000 per box. So putting all of that aside assuming the same type of cabinets between a single-family house and multifamily type homes, typically the single-family homes have larger kitchens, they take more cabinets per kitchen than a multifamily house does. I don’t have right on fingertips the exact take or the average in a multifamily home. But I would say a single-family home is certainly higher just because of the size of the kitchen.

A question for Joe. You talked about a normalized operating margin for Cabinets in the 7% to 10% range. Can you help us to frame the path forward in terms of timing? And then obviously you guys are stepping up cost take out in different initiatives with this turnaround. Do we still think about 30%, 35% a good dropdown type incremental margin going forward? Thanks.
John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

35% dropdown. It would probably be right around 30%, Joe.

Joe Gross  
President, Masco Cabinetry, Masco Corp.

Okay. So from a timing perspective, I think we have opportunities in 2016 to reach the margins that I've been talking about. And that would represent on our growth of about a 30% dropdown.

Keith J. Allman  
President, Chief Executive Officer & Director

And the key is our focus is this year. We didn't talk about and we didn't present charts for 2017 in Cabinets. What we said was we're focused on returning it to profitability this year. We think there is some upside to the $10 million, but we are out there with the $10 million. At that point, we're going to evaluate the trajectory of the business and look at different options we have. In terms of normalized margins, that's an estimate of where these could be. We can get there a year or two years after that, that could factor into our decision long-term with this business. But right now we're focused on 2015.

Irene Tasi  
Director-Investor Relations

One last question over here.

Keith J. Allman  
President, Chief Executive Officer & Director

We're going to look at 2015 and how 2015 finishes and evaluate our actual results and trajectory and we'll go from there. In terms of Joe's mandate, we've brought him in place and he understands that it's about driving profitability in 2015.

Yeah, Jeff and maybe John, if you could touch on lower input costs in Paint and if the benefit from lower resin is going to help offset the potential for negative mix as you grow in the pro business. And, John, if you could just kind of quantify the dollar benefit for our sake and talk about hedging strategies that you use given the lower cost environment. Thanks very much.

Keith J. Allman  
President, Chief Executive Officer & Director

John, why don't take that one?
So, as it relates to input costs, obviously everyone has seen the price of oil go down over the course of the last several quarters. As everyone continues to observe the commodity markets, oil I think this morning was at $61 a barrel. So we're trying to see a little bit of an uptick off the bottom that was experienced a couple months ago.

So as you saw in our first quarter results, we had nice margin improvement, but a lot of that improvement in the first quarter in the Decorative Architectural segment was driven by a couple of things that weren't commodity-related. We did defer some advertising spend out of that quarter and we also has some nice mix improvement. So, haven't really seen the benefit flow through to our P&L yet. Do we anticipate the lower material costs to benefit our P&L later in the year? Yes, we do. To what extent it is remains to be seen. As you may recall, we cited the fact we have about $20 million worth of investment in this segment in 2015, not only the Color Center rollout, but also to Liberty Hardware and several program wins they've enjoyed at both the home improvement retailers. So could that be a little bit of an offset to the raw materials? Certainly, it should be an offset.

In terms of your second question as it relates to commodity strategies or hedging strategy I should say relating to commodities. The commodities that go into Paint are not commodities that can typically hedge. We've looked into that and given the oil–second derivative out of oil and natural gas, we've checked into a lot of folks that try to hedge that, and there's just really no hedging market available. That said, in some of our other segments, like Plumbing, there is obviously a robust copper and zinc market. And we have made some hedges in on those commodities over time for both 2015 and beyond, just to your point, [ph] Bob, (2:27:30) the recent lows in copper.

Keith J. Allman
President, Chief Executive Officer & Director
Do we have another one, Irene? Not seeing any other questions. Am I missing it? There we are, one more in the back there.

Hi. Thanks. Just have a question on Cabs strategically. One of our competitors is currently being bought, the go-shop period ended yesterday. It seemed like strategically that would have been a very nice fit for you guys. And perhaps from the outside looking in could have helped accelerate some of the margin enhancements that are currently ongoing. Doesn't look like that's going to happen for you guys. Did you take a look at that closely? And is it more of a function of, well, we have to get our house in order first before we can look at acquiring something on the Cabinet side, or was it more of just lack of strategic fit?

Keith J. Allman
President, Chief Executive Officer & Director
We know Norcraft very well. In fact, parts of Norcraft were sold to them by Masco. And it's a relatively small industry. So we're always looking at our competition. In terms of what that acquisition does for the competitive environment, we don't anticipate a significant change. We were competing against them before the acquisition and we'll compete against them after the acquisition.

In terms of if an acquisition was right for us, I think when you look at the Cabinet industry, there tends to be contained supply chains for a particular brand in terms of the amount of leverage that you can get. Now, certainly there is some leverage when you talk about component plant leverage or component plant volume that go to
multiple brands, understanding the complexity that sometimes can hit when you do that. Quite frankly, not interested in a cabinet acquisition. And I think you hit right it on the head. We’re focused on what we have, what we own now and getting that back to profitability in 2015 and then evaluating the slope of the curve of our trajectory and making decisions beyond that after we have 2015.

Okay. Seeing no further questions, I think now we go to break. Is that correct? And how long, Irene?

[Break] (2:30:03-2:30:42)

MANAGEMENT DISCUSSION SECTION

Irene Tasi
Director-Investor Relations

Excuse me. Can we please start taking our seats? Our next speaker – and I know there is a lot of anticipation around this particular presentation that he will wrap everything up for us, is our Chief Financial Officer, John Sznewajs.

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

Thanks, Irene. And good morning, everyone. Again along with Keith and the other presenters, I want to extend a warm welcome to everyone at our most recent Investor Day. This is our first since 2009. So I shouldn’t be that sensitive, but I heard it twice now this morning that there’s only one person on Keith’s management team that is not new, and that is me. I am the only member of management who was at the 2009 Investor Conference.

But maybe with that as backup, maybe I can offer a little bit of perspective on what’s changed in the last seven years, six years at Masco. And you’ve seen a lot of our performance change, obviously, we were in the midst of the downturn back then. We continued through the downturn for several more years. And now over the last couple years, we’ve seen some recovery in our end markets.

And the thing that’s apparent to you as accidental observers is obviously our financial performance has improved as our end markets have improved. I think the thing that’s missing to a lot of investors that they don’t see, the fact there has been a significant cultural change.

The ones that Keith began to initiate last year is continuing out throughout the organization. One, it drives more accountability, more execution. So I think as we go through my slides over the course of the next several minutes and you hear the opportunities that the gentlemen presented this morning, there’s some significant progress that we are making and there is some more progress yet to be made in Masco.

So with that, let’s dive into a few numbers. Here’s what I am going to talk about today. So I am going to talk a little bit about the plan that we’re currently executing, talk a little bit about 2015 and beyond and then near and dear to everyone’s heart, how we are going to allocate our capital.

So the plan that we have been executing so far really has three parts, a very simple plan. One, refine the portfolio. And with the spin-off of TopBuild, we’re executing on this one. Second, reducing our cost and improving our efficiency. You heard Joe, you’ve heard others talk about how we have done so over the course of the last several
years. We will dive into this one in a little bit more detail. And finally how we are optimizing our capital structure and our capital allocation.

So let's take a little look at how we are executing on this plan. First, in terms of the portfolio, we announced on September 30 of last year that we were spinning out TopBuild. Where did that leave us? It leaves us the core Masco. $7 billion of building products, largely paint, plumbing, cabinets and windows. As Keith mentioned earlier, the key focus is our industry-leading brands, consumer-driven innovation in our manufacturing presence that differentiates us from the competition.

Then we have TopBuild. As Jerry and his team will talk about in a little bit, the leading installation contractor for new home construction. It's highly leveraged to both the new home, residential and commercial real estate markets as they continue to recover.

We saw this slide a little bit earlier. So we are deliberately changing the profile of Masco. We're going from something that had a high degree of exposure to new home constructions. You see with the first step we're creating a business that's got a little bit more international exposure, but with the spin-off we're creating a business that's much less cyclical. With that degree of lower cyclical comes more stable, more predictable cash flows. As a CFO, I love it.

The other thing we had to do over the course of the downturn is reduce our costs. And we took a hard look at our cost structure. We've taken out $400 million of fixed costs over the last several years. How did we do it? We did it the obvious way. We had to shut facilities, and that was really highlighted in Joe's presentation, but we also had to make some painful decisions about some of our colleagues. We had to reduce our head count by 45%.

Now to key to this cost take-out is to keep it out of the cost system going forward and we're highly focused on that. The teams have done some great execution and I think I can show you a few examples as to how we're executing against this.

First and foremost, this slide shows you our operating profit. The blue bars, the line represents our SG&A as a percent of sales. So as you would expect, when volume returns, profits go up in and you can leverage your fixed cost and you SG&A. The thing that I'm most proud about with this group is if you take a look at our SG&A dollars from 2013 to 2014, we were actually down. And I should say that these numbers reflect the new Masco. These do not have any of the TopBuild numbers in them. So really proud of the execution of the team against the cost control.

Further evidence that the cost control is taking place. You can again see the fact that we're dropping 35% incremental margins with the new Masco. The sales up $700 million in the last three years, profits up about $250 million. So really, really good execution there. We're leveraging it even better on the bottom line because our EPS has grown in excess of 50%. So it's terrific, terrific performance on behalf of everyone across the enterprise.

Now many of you have known Masco for a long time. And one of the key tenets of Masco is that we're not an asset-intensive business. We do not require a lot of capital to grow. You can see over the course of the last several years, CapEx as a percent of sales has remained low. We have averaged less than 2%.

The other thing we've done over the course of the last several years is identified some key financial metrics that we want to push enterprise-wide. And one of them is working capital. You can see from this slide that our working capital days are the lowest in the industry, lower than our peers, lower than our competition. And we've done so for each of the last three years. Again, great, great execution by everyone in the field. This is a classic example of what Keith was talking about a little bit earlier. This is central-led, not centralized. This is also a key example of
Keith’s number two strategic priority, exercising our leverage across the enterprise. So this is a team coming together to focus on a key initiative and delivering on it.

Now let’s take a look at 2015 and beyond. So you all know our end markets and what macroeconomic impacts affect us. These are couple of them. There’s other ones as well, obviously job growth, wage inflation, credit availability all impacts our top line.

Let me focus on a few of these that I think are really important to the new Masco going forward and become a much more repair/remodel-oriented business. The first is the age of the U.S. housing. There’s a huge installed base of homes; 130 million homes exist in the United States today. The average age is 35 years. Those homes require a lot of TLC, which is a great for us and the products that we make.

If you think about the four product categories that we’re in, particularly like kitchen and bath, the two high ROI investments that a homeowner can make, really good product categories to be in. Well, if you’re not willing to make that big of an investment, you can just spruce it up with a little bit of paint. So another great product category to be in. And if you’re a little more oriented to conserve energy, save the environment, put in some new windows. You can [ph] pencil a return (2:39:29) on Gary’s and Milgard’s new windows. So a great part of the cycle for us to play in.

The other area that I like to focus on is housing turnover. And Jeff alluded to it during his presentation. We generally see a two-fer with an existing home turn. We see them paint before, we see them paint after. And this is the one area of our business that has returned to pre-recession norms. Existing home sales are now at about 5 billion units, where they were in 2006.

So a really, really good place for us to participate in. As a result, as we look at our growth, we think the repair/remodel market can grow in excess of the overall GDP by 1% or 2%. Because if we think about where Blue Chip is right now and the Blue Chip consensus forecast for 2015 and 2016 for GDP growth is about 3%. So if you look at our industry, we think that can grow in the 4% to 5% range. And with some of the initiatives that you’ve heard about this morning, that’s how we get to growing in excess of our industry rates, at a rate of about 7%.

So here is the slide that I think is important for everyone and for everyone to understand very specifically. First of all, these numbers exclude TopBuild. This is the new Masco without the Installation business. So we’re going to go from $6.8 billion, and that’s a little bit lower than what you would have seen in our reported statements because I’ve adjusted this for currency so we’ve got apples-to-apples. So, this is at [ph] a buck ten euro (2:41:02). So everyone is clear on that.

So we’ll grow $1.5 billion in revenue over the course of the next several years, 7% CAGR. Importantly, we’re going to increase our bottom line by about 32%, from $750 million to $1.3 billion. And very importantly, we’re going to double our EPS. The $1.80 that you see in 2017 does not include TopBuild. Can I make it any clearer?

So, here is how we see the top line growing. As you would expect, the majority of the growth is coming from our lead horses, Paints and Plumbing, the two biggest platforms that we have and you would expect them to drive the most dollar growth. You see Other Specialty, the Window business growing at a nice clip. And you see also there our Cabinet business driven by Joe is going to have a nice growth rate. So altogether, we’re going to experience about a 7% compounded growth rate over the next three years.

Moving to the bottom line. We think we can take margins to about 14%. The way we look at it is pretty simple. We think that we will be price commodity neutral over time and that’s exactly where we’ve been over the last 10 years. Commodities come up and we get a little bit of headwinds from commodities. Over time we implement price and
we gain that. If you look at any extended period of time in Masco's history, price commodity should be neutral and we also believe that our productivity initiatives should offset any other inflation that we see across our business, whether that's wage inflation, healthcare inflation, et cetera. The remainder is the operating leverage driven by our businesses. So we see strong operating leverage, again, in that that 27% to 30% range over the course of the next several years.

So how are we going to allocate all this capital over the course of the next few years? Let's take a look. We've got a very disciplined approach that we announced in September 30 of last year as to how we're taking a look at our capital. First and foremost is always invest in our business. We got to keep our manufacturing businesses alive with investment behind innovation, investing in machinery and equipment to continue our ability to grow.

The next three items we really try to balance. So shareholder-focus returns, our share repurchases and our dividend activity, some bolt-on acquisitions. And we've touched on a number of areas where we look at those earlier in the morning. Going to pay down some debt, something that we've been talking about for several years.

First, CapEx. This is just a continuation of the slide I show you a couple minutes ago. The only difference is that we show now out to 2017. So we continue to believe that we only need about 2% of sales for our CapEx. No change in our investment policy to support our businesses.

Here is an important chart and I'll walk you through this one a little bit more slowly. This is our liquidity from the end of last year to where we believe we're going to end up in 2017. So we think this business can generate about $2.2 billion of cash from our operations, add to that the $200 million dividend that we're going to get from TopBuild. If you take a look at that 2% of sales, that will be offset by cumulative CapEx of about $600 million, dividends, we've been averaging about $130 million a year. So that will aggregated cumulatively about $400 million.

Share repurchase activity. Now we began our share repurchase activity already. We've purchased 9 million shares of our $50 million share authorization, but we plan on continuing that activity. So we plan on spending $1.2 billion on share repurchases over the next three years.

The acquisitions. Keith talked about it, Joe talked about it. We've all talked about it this morning. Nothing identified yet. We are working the pipeline. We've got Amit Bhargava, who is our new VP of Corporate Development Strategy focused on developing the funnel and we are beginning that process now. So we'll be allocating some capital to acquisitions, about $500 million. The thing that's important to know, none of the $2.2 billion in cash from operations includes any income from acquisitions. So that's above and beyond what you see on the slide.

And finally, we've done very vocal about paying down some debt and we intend to do so. We've got a 2016 maturity. We've been saying between $300 million and $500 million. I think the center of the range for this purpose.

As it relates to debt, here's our debt maturity profile. The 2015 maturity, we pre-funded it in March with a 4.45% 10-year offering. Thanks to everyone who's helped us out with that. So our 2015 maturity will be paid off here shortly, in the middle of June, its normal maturity date.

The next thing we're going to focus on is reducing the debt in 2016, as I said. So probably take that down by about $400 million and extend that out into the 2027 timeframe. So here's where we're going with our debt to EBITDA. So a couple important points to make here. As you look between 2011 and 2016, despite the fact that we're coming out of a heck of a recession, we've taken our total debt down by $1 billion. We really are improving our balance
sheet. At the same time, we’re getting our credit metrics to where we want them to be, so around the 2 times range. Why is that important? Due to the downturn, we’re a little bit limited. We had a pretty over-leveraged balance sheet. We don’t want to find ourselves in that position again. We want to have that financial flexibility to make a move if we have to. So by paying down some debt, getting our credit metrics in the right spot, it gives us additional firepower, if we want it.

And here’s a slide that I really like. Being the CFO, what I’ve done here is you’ve got your ROI and your weighted average cost of capital. It’s important to me that we have our returns exceed our cost of capital. And this is not fun and games here. This is a fully-loaded ROIC. So what I’ve done for our purposes here is add back all the goodwill impairment charges that we take so we’re accurately reflecting the cost of the businesses that we own.

So you can’t get here off the printed financial statements that we report to the SEC. This is a little bit of an internal announcement that we’ve done. You can see we are making progress against this metric. In 2015, we got returns exceeding our cost of capital by over 150 basis points. So we’re really proud of the progress we’ve made on this metric and we’re not stopping here. Our goal is to get our ROIC mix up to 15%.

So that gives you a good picture of the new Masco, what we look like. I think what we are doing now is we are changing the story. We’ve transformed Masco, we are going to continue to transform Masco over the next several years. We have always been a very profitable business with strong cash flows. That’s going to continue. But I think what’s different is this is a free cash flow story now and a returns-driven story now.

So with that, that concludes my remarks. I’d like to invite Keith up for some final comments.

Keith J. Allman  
President, Chief Executive Officer & Director

We’re up here for Q&A, right, Irene? No comments other than to open it up for Q&A over what John has covered or if there’s any questions that you would like to ask there feel free, John is ready to answer them.
QUESTION AND ANSWER SECTION

Thank you. The summary you just gave, John, of other companies that have a similar view, one of the elements to them is they are always reviewing their businesses, looking at the returns in the business, what the returns are going to be over the next several years and deciding whether they want to invest or even own that business. Fair to say that's part of the new Masco?

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

Absolutely. That is exactly how we're looking at.

You made a big one with the spin but I'm saying...

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

We made a big one with the spin. We made a comment earlier about our Cabinet business. I mean, it's like any other asset in your portfolio. If it's not generating the returns that our shareholders deserve, we need to take a hard look at that.

Keith J. Allman
President, Chief Executive Officer & Director


Hey, thanks. That was great. And congrats on getting your return on invested capital above your WACC. I have kind of a qualitative question. You guys came into the recession with a levered balance sheet, you are reducing the leverage. I wanted to say is it fair to qualify this thing your first Investor Day in a number of years as this is kind of a pivot towards going on offense and you're mentioning M&A and buy backs and giving some more value constructive things?

The other thing from John's chair, following through on your 2017 guidance that you provided, where do you see ROIC going in the next few years? Where do see your cost to capital going? And what does that spread look like?

Keith J. Allman
President, Chief Executive Officer & Director

First on the question or the notion of shifting to offense, per se. In the past and under this leadership team, we really do look at getting better before we get bigger, particularly when you look at what we came into. To say that we're finished with that would be the wrong notion. We're going to continue to drive continuous improvement;
we’re going to continue to deploy the Masco Operating System and our common approach to how we run the business and the language that we use to run the business. But at the same time, keeping our business leaders and segment leaders autonomous with a strong line of sight that their action and their results and a strong line of sight from their results to the conversation. So we’re going to continue to make the business better.

I do believe and it does feel and the notion that we want to communicate to you all that we are putting our -- leading with a foot forward. When you look at Hansgrohe and their focused markets in Europe, we brought on a professional, a CEO from Thorsten Klapproth, who has a track record of profitable growth. And he’s organizing and he is doing it the right way with regards to maintaining the culture of Hansgrohe, but injecting some favorable improvements. So there is a shift to more aggressivity certainly when it relates to global expansion in Plumbing.

Same thing with category expansion. We’re slowly building our momentum in that area, but our intention is to lean into that. And then with our core business growth around Behr and the profitability and the profitable growth that we’re looking at with the new Color Centers and the marketing as well as the expansion into other areas with our Kilz brand and some other. So yeah, I think that’s a fair characterization. But at the same time, I don’t want to suggest that we’ve lost focus with regards to our continuous improvement pace and rate.

John G. Sznewajs
Chief Financial Officer, Treasurer & VP
Second part of your question, [ph] Bob, on returns going forward. So I do think you’ll see a slow, steady progress on our improvement in our ROIC. We will be leveraging our asset base even better over the time.

You see the incremental margins we dropped, so that obviously will impact the top line favorably. If we can contain, and I think we can, both the cost spend as well as our capital spend, it won’t be an issue to get those returns going forward.

The trick that we’ll be in a little bit is that interest rates are really low rates right now. So will that impact our WACC over time? Yes, WACC will probably inch up. But guess what? I think we can exceed the rate of the increase in the weighted average cost of capital with the returns the business will generate.

Okay. Hello. Good morning. Keith, two questions. First off, why such a measured pace of share repos? You have plenty of liquidity. You’ve reduced with the spin ultimately, with TopBuild you’ve reduced the cyclicality. You think there might be multiple expansion as you get closer to your publicly traded peers. So theoretically your stock would be cheaper now than it might be a few years now. So why such a measured rate right now? And then I’ve got a follow up question if I could.

Keith J. Allman
President, Chief Executive Officer & Director
Sure. I think we’re off to good start. John, what’s the percent of our authorization that we’ve done, 20%?

John G. Sznewajs
Chief Financial Officer, Treasurer & VP
20%
Keith J. Allman  
President, Chief Executive Officer & Director

So we've utilized 20% of our authorization. We bought back 2.5 points of our float.

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

Yeah.

Keith J. Allman  
President, Chief Executive Officer & Director

Somewhere in that range. So I think it's a good start. Admittedly, we're expecting our stock price to go up. So I share the math, but we agree on that. It's about balance.

And I think it's also fair to say that we have our levers on that and we have some flexibility to that. And we will evaluate it as we go. So if there's an opportunity for us with an acquisition that comes forward, we would want to have the flexibility to go after that. Conversely, if there is an opportunity to accelerate some share repurchase at a good price, we would do that as well. So I understand the math and I know where you're coming from it. I think we have a good start. And we have flexibility as well.

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

Just maybe add some other color to this. I mean, if you think about our cash on our balance sheet, we have about $600 million over in Europe and we need about $300 million to run the business and we're going to pay down $400 million for next year.

So you've got a little bit of capital kind of earmarked, the $900 million between Europe and to run the businesses is kind of what we need, not easily accessible, let's put it that way, particularly the European cash. And then the balance is just quietly earmarked there. To Keith's point, if we wanted to accelerate a share repurchase because we saw a great opportunity, we could definitely do that.

Q

And the follow-up question. You talk a lot about a change in accountability of your senior leaders. Can you talk about or remind us what the variable compensation metrics that you're looking to compensate your folks and perhaps how it either has changed or ultimately will change over the next year or two, not so much the dollar amounts, but more the metrics that you're looking at to gauge performance?

Keith J. Allman  
President, Chief Executive Officer & Director

I don't anticipate a significant change. We've made some tweaks already. We have a balance between asset management, call it, working capital, so we have a portion of our business leaders variable comp tied to working capital management. And I think that's important for the obvious cash flow reasons, but also the only thing between better inventory performance in the future and where we are now in waste. And so that is a good metric for the overall robustness of our continuous improvement process. So working capital has a percent of sales as a piece of it, but it's heavily weighted towards operating income for the specific business that they're in.
And then the mix of the variable comp goes across the usual suspects of cash bonus, restricted stock and, in some cases, options. So while we are driving — and the long-term ROIC plan, which was put in...

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

Three years ago.

Keith J. Allman  
President, Chief Executive Officer & Director

...three years ago to help balance the short-term long-term mix of the overall compensation model. I think it’s a good balance. We want to have that sweet spot of autonomy and we want our leaders sweating their business every day when they go to work and fundamentally having a line of sight between their actions and their checkbook.

We also want to from a leverage, which is the second core strategy for Masco, when you look at driving the full potential of our core leverage and portfolio, leverage is important. So putting on that Masco hat. You heard examples of how Jai Shah at Delta and Thorsten at Hansgrohe are working together to do that. So we want to keep a balance.

I like the overall design of our compensation and as goal based and we set aggressive targets. And at the same time, we decouple our stretch so that we can put significant stretch into our plan to expose performance gaps and then have a set of tools in the Masco Operating System that can go and attack systematically those gaps.

The structure of the TopBuild spin a little bit, you're keep saying spin, I wondered if you would consider one of two other alternatives, a split something along the lines of [indiscernible] has done, where you actually give shareholders the choice of exchanging their shares for TopBuild shares, therefore, the market capital mismatch isn't a problem. And it's really effectively a very big buyback. To the prior question for you, you get buy back of shares by doing that structure. Secondly, if somebody came calling, is an outright sale before the spin date still an option?

John G. Sznewajs  
Chief Financial Officer, Treasurer & VP

So as it relates to spin, effectively we're doing a tax free dividend to shareholders. We understand that not every shareholder may want the hold TopBuild, but I think you haven't heard the presentation yet from Jerry. So let's hold off on getting too down on TopBuild. But we think it's the most cash efficient means for our shareholders. So we will be getting a dividend back from them. So to your second question, an outright sale at this point is off the table.

John, I'll ask you first, what are your macro assumptions for 2017 that you sort of laid out? And then, Keith, how often do you evaluate the businesses when you talk about, hey, we'll look at whether they hit the ROIC targets, et cetera? Do you need to get that to a normalized operating environment before you would make the decisions on something like Cabinets?
And then are there any other potential legs of the stool that you all would be interested in as you look over your – I assuming you have like a five-year type plan?

Keith J. Allman
President, Chief Executive Officer & Director

In terms of the portfolio evaluation process, that's part of our annual planning process that we look at so it is not a one shot deal. So we continue to look at that.

In terms of the second piece of your question about if we would need to wait for a normalized return of the market to make a decision on a portfolio. The answer is no. We are looking at an eye for value creation. So when we look at the timing of the TopBuild spin, for example, we didn't wait for a normalized sales.

We think that the value in TopBuild – and you're going to hear it from Jerry and his team, is very strong with that forward-looking expectation for new housing growth. And so no there is no governor on our portfolio decisions as it relates to position in the cycle. Having said that, of course we think about the position of the cycle. We're more focused on what can add value and we argue about and talk about the long-term/short-term tradeoffs.

Any other businesses that are attractive to us? I think there is several additional legs to our company or several additional platforms that feed to our strength, but we are not talking about those. We're not really contemplating those.

We're looking at bolt-ons that can fit and augment our organic growth strategies that you've just heard about. So, yes, there is interest. There's an element of getting our Masco Operating System in tune and getting our leadership development engine roaring before we would look at that. I wouldn't discount it standing here now from five years that we still need to do that. But our focus is on bolt-on acquisitions that augment our current platforms.

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

[ph] Stephen, (3:01:36) the first part of your question as it related to macroeconomic assumptions. So just to be clear on that, so we generally – we're not economists. We run businesses. And so we do look at Blue Chip consensus. Their GDP estimates are about 2.93% for the next couple years. We do think historically the R&R market has exceeded the overall GDP rate, just because of the fact that we do have such old homes here in the United States.

So that's been very typical. A little bit of a bifurcation or dislocation I should say in the downturn. But pre-downturn and even now we're starting to see a little bit better growth. Housing starts, again Blue Chip is at about 1.4 million, 1.5 million. We think that's a little bit aggressive ourselves for 2015. We're probably closer to about 1.1 million new construction units this year. So that's how we generally think about it. I don't know if there is more detail...

Keith J. Allman
President, Chief Executive Officer & Director

Right here I think.

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

The gentlemen here?
Q

Not that this is your focus, but if the right deal were to come along, would you be willing to do a larger deal? And could you remind us of the leverage levels that you're comfortable with?

A

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

Right. So I think showed in one of my later charts, you've got our debt-to-EBITDA ratio coming down to about – our rate coming in at about 2 times. If you saw the beginning of that chart, we were at 6 times. So a big, big difference between the two ends of the chart. Would we be afraid of levering up to do the right transactions? My response is that, no, we wouldn't. But it would have to be the right – I mean, it would have to be hand in glove kind of transactions for us. We are not going to lever up to do something that that's outside of the core right now.

A

Irene Tasi
Director-Investor Relations

We had a question from a webcast participant. Is it fair to assume that the midpoint of the $1.80 2017 EPS includes the midpoint of the Cabinet margin guidance of 7% to 10%?

A

John G. Sznewajs
Chief Financial Officer, Treasurer & VP

Yeah, I guess that is a great point. I guess I should have said that when I was making my remarks. All the assumptions that you saw on my slides is the fact I took the midpoint of all of the sales ranges that each of individuals presented this morning. That's how I got the number, the $1.80. So we can follow up for greater clarity on that later if you want.

Q

Thanks. And, John, just I think following on Steve's question about the underlying macro assumptions. When you are talking about the 7% CAGR and sales growth through 2017, just how much of that is underlying market growth versus a lot of the different share gain initiatives across the businesses?

[007HC5-EJohn Sznewajs]

Well, the way I think of it is simply that if you just take our 80%-plus of the businesses that's repair and remodel-oriented and if you take a look at the fact that if we say the R&R segment is going to grow GDP plus 1% or 2%, so let's call that 4.5%. On 80% of the business, the balance will be home construction growth plus share gains, share gains in the other initiatives that we discussed this morning.
Okay. I think at this point we're going to wrap it up and introduce. Just a few takeaway points before we move into TopBuild. I think you'll agree that the actual execution is underway and the transformation is progressing here at Masco.

In terms of the outlook that we have, a strong 15% compounded annual growth rate and EBITDA very solid. And with that comes what we estimate to be in the range of $2 billion of free cash flow that we can allocate towards shareholder value. And that allocation would take place across a balanced approach that John and myself have eluded to before. So I'm excited about Masco.

We came on board and we talked about transformational leadership. We're moving in that direction and clearly Masco is positioned to outperform. We're leveraging our portfolio of global brands. We have a robust pipeline and compelling growth strategies.

As we've talked about a little bit in terms of compensation, but also culture, our management teams are aligned. It's a different Masco. We're more assertive. We're watching our operations more closely and we're driving a leadership model. And as I mentioned before, with that comes our strong cash flow generation over the next two years, three years.

So with that, I believe this is time now to transition, okay. We have a Q&A panel, we're little bit behind, I apologize for that. We talked about a significant portfolio transformation in the spinout of TopBuild, our installation services business. That's going to make a better Masco and we talked about several of those reasons. But it's also going to create a wonderful new publicly traded company, TopBuild.

You're going to hear from Jerry Volas and his team about the strong tailwinds, about the strategies for growth and why this is such an exciting opportunity for the leadership team and the investors in this business. Jerry has been waiting now for three hours and the bull pen, he's ready to pitch.

I will you that Jerry is a good friend of mine. We've been working on and off together for 15 years. He took a chance on me when he moved me into the Delta Faucet role, so you can question his leadership assessment ability.

Anyway, Jerry, come on up here and let's talk about TopBuild.

Gerald Volas
Chief Executive Officer

Thanks a lot, Keith. So what I'd like to do here today with some help is a couple things. Number one, to clarify for everybody what is TopBuild. I do think there might be a little murkiness in the audience relative to exactly who are and what we do, so goal number one would be to clarify that so you have a good understanding. Then number two to help you understand why should you be as excited about TopBuild as an investment as we are. Because we the
leadership, the senior leadership team here are extraordinarily excited about TopBuild and what the future lies for that.

So by way of introduction, with me here today is Robert Buck. Robert will be the President and the COO of TopBuild. Robert has got 20 years with Masco, the last four years or five years of which have been specifically running the Crew Team, which is contracting model. So a lot of actual hands-on experience. As a matter of fact, I'll brag on him a little bit here initially, that he really has been part of the architect relative to putting together some of the changes that we've done.

And then secondly, John Peterson is with us here. John will be the CFO of TopBuild. Again, John has 10 years with Masco, the last four years or five years of which for John have been the CFO of the Crew Team organization. So again, another guy that's got a lot of Masco experience and most of it specifically with this model.

Myself, I have been at Masco for 33 years. I started when I was 12, just if you're doing the math out there. And I've worked with all the Masco, all those terrific companies that you heard about this morning and those terrific people that were telling the stories, worked for them for a long time.

And so I in addition to my responsibilities with the other companies as a Group President, I spent the last three years or four years, again, these companies were part of the responsibility that I had with Masco as a Group President. So just to say that running this company and the number one point I want to make for you is that we got a senior seasoned diverse team that has taken all the learnings, the governance, learnings that Masco does so, so well, and all the discipline and the process that you heard about have all been imported to the three people that are going to be taking this company forward, so.

Agenda-wise, I'll talk to you about who we are, about what TopBuild is. I'm going to have Robert talk to you about company strengths, specifically in TopBuild that he knows so well. John will come up and get into the numbers and the scoreboard, get you comfortable with that. And then I'll wrap it up with what you can think about going forward with TopBuild from a growth standpoint.

So what are we? So TopBuild is the enterprise name. That's the umbrella company. Inside of TopBuild are two best-of-breed models. The first of which is TruTeam. Now, those of you who have been around the Masco scene for a long time, many of you have and you know that is Masco Contractor Services, that's been renamed TruTeam. We are a contractor. We install insulation in new homes primarily. And not only we are just a contractor. We are the biggest contractor by far in the space that we're in.

We've got 190 branches, 4,000 installers. We have 4,000 installers across the country. 500 sales professionals across the country. So this is a big, big organization. Again, whose expertise is installing insulation largely in new construction. There is more of a story that you're going to hear today, but from a fundamental viewpoint, the core business is new construction.

The other piece of the puzzle is Service Partners. Service Partners is the distributor, probably a somewhat well-kept secret as it relates to TopBuild. But this is a great, great organization put together over a long period of time that distributes insulation and other closely related products to a variety of customers. Biggest customer for Service Partners, the most significant would be a small contractor, who in turn installs that insulation to builders.
Again, both of these companies have been around a long time and we will talk about some of the history here. But both have very well earned reputations in their space, terrific service, best-of-breed, the biggest, the most scale, a lot of commonality between these two models.

Supporting both of them is what we call TopBuild Home Services. TopBuild Home Services specializes in building science. We have 75 people in the TopBuild organization who are experts in building science. And think about that as energy efficiency, think about that as improving the comfort and the safety of the home. These are all things that we are going to talk about more that are very important emanating from regulations that are coming from states and municipalities, coming from the consumers' desire to have safer, more comfortable, more cost-efficient homes.

So these are the three pieces of the puzzle, each of the three excellent in their own right. The magic is when you put these three together, what you get is tremendous scale. You actually have advantages with manufacturers and those that we buy our product from as well as on the go-to-market side. So, you put one plus one plus one together, you get more than three and we're going to tell that story.

Here's a bit of a chart just to drive the point of home diversification. I talked a lot about the core of the business. I told you that insulation and related products are the core business, I told you that RNC, Residential New Construction is, but when you look at this, you can see that we're about a lot more than that and there's a heavy diversification theme that I want to preach to you as time goes on to the presentation.

You can see that we're two-third contracting, one-third distribution today. Insulation, certainly the core of our business. We are the experts. We also do a rain gutters and we do a list of other related products where we think we can be effective with our customer base and, quite frankly, we can make money.

And then from a line of business perspective, history of the company is certainly residential new construction, but repair and remodel and we're going to talk more about commercial as opportunities for additional growth and opportunities to corner what can be a relatively strong housing start cycle.

Great slide, very simple. But I can talk about it for quite a while. I'll keep that to a minimum, but this really tells the story three different timeframes that you're looking at here and think of the top, prior to 2005 as the big run up in the housing starts. 2005 was the peak of the housing start cycle, I think we came at over 2 million at that point time.

2006 to 2010 was the when it came back down the curve rather dramatically and then 2011 was the beginning of the recovery that we're part way up right now. If you look at the bottom, expansion, rationalization, positioning for growth. That really reflects the evolution that's happened with these companies that are now TopBuild and I'll talk about that really in four different dimensions.

The first would be the footprint. In that prior to 2000 timeframe, Masco acquired over 150 small companies that make up the footprint that we have today. In the 2006 to 2010 timeframe, a dramatic rationalization had to happen relative to footprint. And quite frankly that was just driven by necessity. When housing starts go from 2 million to almost 500,000, some dramatic draconian efforts relative to cost control had to happen and we did that. But we did not waste the learning that we have there.

What we end up with from a footprint standpoint is really a much more efficient footprint. We still cover the country. But we do it not with the 300 branches that we used to have; we do it with the 190 branches that we have today. And the key there was flexibility. So we learned a lot relative to the footprint, got us to a great place.
The second I would say would be product. When we bought all those companies back in that timeframe, brought with them a lot of products that they were opportunistically doing themselves in addition to insulation. In fact, we had a list of almost 40 different products that we were installing at that point of time.

The rationalization phase taught us a lot of lessons. Taught us what we were good at, what could we really scale in a meaningful way. How could we leverage the skill set of the installers that we had across the country? And we trimmed that list down rather dramatically so that again positioning for growth phase we think we really have optimized those things that we can do very well.

The third I would say would be lines of business. Again, for the company back in the day when housing starts were going crazy, it was residential new construction. It was what we were best at and we gravitated to it and that was the right thing to do. The opportunity and the rationalization was to learn how to leverage that into repair and remodel and to commercial. And we did that very effectively to the point where we now believe that we really have a very nice diversification of mix in terms of the lines of business. And that really is really, really important in terms of the cyclical and the performance of this company going forward and how we deal with cyclical housing start cycle.

And then the last thing will be cost model. All of these companies were acquired in that timeframe. They all brought with them administrative costs, administrative effort. They all had their own way of doing things and doing business. What we were able to do in the rationalization phase is really take a hard look at how to streamline that.

John talked a lot about Masco World, about how do we get our costs under control. That happened in this segment in that 2006 to 2010 timeframe. ERP was another piece of that. We went through ERP implementation that really has us positioned here from a process perspective on a going forward basis nicely.

So really, again, the point I want to make here and just emphasize it is a lot has happened with this company over a period of time, a lot of good things. There was a very dramatic housing cycle that everybody understands and knows about. It was difficult for these companies, but we have learned a lot from doing that and we used that effectively. And it really got ourselves positioned going forward nicely.

Just a couple of examples of why we're so confident about our model today. I mentioned many of them. We think we've optimized our national footprint. I said that not only about the contracting business, but also the distribution business. The same thing happened on that side of the equation. We really do think we've got the cost model correct there and we've got the right model.

Breakeven point, I talked about costs. We have dropped the breakeven point in this business from the 1.3 housing starts that it used to be down to 750,000 housing starts. And we did that by taking almost $200 million in fixed costs on an annualized basis out of this model over a period of several years.

Talked about ERP. I don't have to tell anybody about ERP. That's usually synonymous with money, pain, agony. It wasn't all that painful, but we did get ourselves at a point in time where we had got through an ERP implementation, we have centralized the system that we use across the enterprise and it's highly effective in terms of putting tools in the hands of the installers and the sales people that run this very disperse model that we have.

Talked about agility, hugely important. When you're in the business that we are where highs in the cycle can go up and down and we're trying to moderate that from a margin view point, it's really important that we have a lot of agility from a cost perspective and we really do think we have that.
And I mentioned the diversified business mix. Again, you'll hear more about that, but again used to be all about new construction, heavily, heavily geared to the new start cycle. We've taken the edge off that by getting into repair and remodel and commercial.

From a numbers standpoint, here the last couple years. From a revenue perspective, we have tracked very nicely with housing starts. That's a good thing. We think we can do that or better going forward. You'll hear more about that. From an adjusted EBITDA perspective, in this timeframe we performed nicely.

Doing the math here you'll see a dropdown, an EBITDA dropdown to incremental sales of about 26%. That's been a good performance. It's been the result of some really outstanding things that we've done in the last two years. We'll talk more about guidance going forward here in terms of how you can expect this model to perform.

So with that, I hope that's a good understanding of who we are and what this model is. I'm going to ask our COO, Robert Buck, to come up and talk about key strengths of the companies and we think we're unique.

Robert M. Buck
President and Chief Operating Officer

Okay. Thank you, Jerry. So I know it's important to you to understand the key strengths that we're leveraging as TopBuild go forward. So I am excited to take you through those today and take you through these four key areas of what we're leveraging and really how plays to the strength of our model go forward.

Let's get started. The first one is really our unrivaled national scale. As you kind of take in the map, you can see we at TopBuild, we're not dependent on any one geography to be successful in the business. We have a great national footprint across the U.S. with both businesses. Over 260 locations, more than 190 locations on our Contract and TruTeam side, and over 70 locations on our Distribution Service Partner side.

We can service over 95% of the housing starts in the U.S. with our footprint and we've participated in 99 of the top 100 MSAs. So when we talk about a rationalization, we didn't leave any major markets. We still have the coverage across the country. The only area we don't participate, Fargo, North Dakota. Please, nobody run out of the room to go start an insulation company in Fargo, North Dakota. But we're not there today.

When I think about our business, we have unrivaled scale in our footprint. And the best way I can illustrate that is what happens on an average morning like this morning. Our crews leave out and we will visit over 8,000 job sites today. That really speaks to TopBuild unrivaled scale that we have in providing great services and products for our diverse customer base. Let's go a little deeper on the national scale. There is no more localized business than construction. So our value proposition is really underlined with local relationships, national resources.

As you look at our unrivaled platform on the national scale side, as Jerry talked about, our Supplier Partners on the insulation standpoint, we provide superior supply chain efficiencies and volume to those insulation manufacturers. That's a very high fixed cost manufacturing environment, so we're extremely critical to those manufacturers and we have great, great relationships with the insulation manufacturers in the country.

Then think about our national customers. It's a fact that we have a footprint that we can service them consistently across the U.S with great quality in service, that's very meaningful to large builders and contractors that we service. Locally, I talk about the local presence, local relationships, nearly 700 sales representatives in our company, the largest in the industry.
With local relationships being serviced by our local brands, the companies that have been in the communities, your communities for 30 years or 40 years. We have great tenure of our sales force and great tenure of our relationships with our customers due to that local presence. So we absolutely -- our unrivaled platform brings together the best of national scale and those local relationships to really service the full spectrum of customers that we have for TopBuild.

Transitions to our second strength. Our strong competitive advantages really differentiate TopBuild. We are the specialist, the expert in insulation across the country. How does that translate? We've insulated well over 5 million homes in the U.S. No one comes close to that metric, over 5 million homes that we've insulated and proven our expertise.

If we to think about contracting business and TruTeam or our Service Partners business, I've spoken to our relationships and our scale. From the TruTeam side, I want to talk about being an employer of choice. That's a competitive advantage or differentiator for TruTeam. We talk to any builder today, one of their top concerns? Labor. We're employer choice for two reasons. For our customers and for our employees. For our customers, we absolutely set the standard for the quality of employee that we put on the job site. Criminal background check, drug free, immigration verified and astringent safety training program. That's very, very important to our customers, especially our larger national customers.

From a team perspective, we provide a great career path for our employees. And in the industry, we provide the best total rewards package as well. That differentiates TopBuild so that we can attract and retain the labor to grow with our customers and grow with the market.

On the Service Partner side of our business, the distribution side, a great, great service model and a great business. As it relates to insulation, we are the specialist in distribution of insulation. We are the one-stop shop, same day, next day service less than full truckload quantities to the contractors and to a diverse group of customers. That's extremely valued by the customers in the industry. That really does differentiate us in our specialty around insulation. Both businesses, though, support it with a building science expertise. I know building science sounds like something you've got to put your lab coat on, if you will.

Let me give you a little look under the hood of building science. What is building science? It's really four things. It's really working with the builders and their architects to design energy-efficient homes, whether it be through the system of the home, the insulation, HVAC system, windows. And helping them design those homes, be there, provide better utility performance or meet building codes.

Number two, it's about training builders, contractors, sales representatives to really meet either new energy codes, changing codes, or to drive energy efficiency in homes. And three, it's the ability to test those homes as well, to test the homes to ensure either they provide that energy efficiency or they meet the new building codes that happen across the U.S.

And the fourth piece, just to give you a couple of examples of that. You know, Maryland has been one of the top states really to adopt new energy codes. And so in Maryland we had one of the top national builders come to us because their townhome communities or their multifamily units can't meet the energy code in Maryland that's been adapted.

So what do we do? We work with them in the design of their structures. We help insulate those homes and then help test those homes to ensure that they do meet the energy codes and they provide the energy utilization as well. So what does that mean for you, the investor or a consumer? It's absolutely a differentiator for us as TopBuild. It helps us retain current customers, but most importantly, it helps us attract new customers in an area that our
competition really does not have the expertise in. As building codes are changing, the energy utilization becomes more critical, it's absolutely a differentiator for TopBuild and our building science expertise.

Looking at our third piece, it's about the diversity of the business. I think Jerry spoke to that and how we've optimized the mix of the business. Looking at the chart, looking at the left, 2005 the TopBuild business, over 91% of the business was focused on residential new construction.

Today looking at 2014, only two-thirds of the business residential and new construction. That's been a conscious decision by our team to diversify this business into repair/remodel and commercial. Those are very, very attractive businesses for us, both from a growth path, which Jerry will speak to a little later and also from a margin perspective as well. So we consciously diversify this business to create a more sustainable model in the future, and for an investor, create a lower risk model with a great growth path as well.

Looking a little closer to our diversification, our Service Partners distribution model, a great, great defense against the housing volatility. If you look at the chart, the bottom really be in the time horizon, looking at the recession, you can see our distribution business did not drop nearly as dramatically as housing starts did.

Reason being the value proposition plays really, really well with the small contractors, smaller customers. One-stop shop, next day same day delivery, less than full truck loads, that's what that customer base needed during the downturn. So that business performs really, really well, but then you also see with the value proposition great, great opportunity in the upturn as well. Again, creating a lower risk model for you as you think about investing in TopBuild.

Looking at our fourth strength. Two distinct channels to reach our customer base. So you think about our diverse customers, really focusing on residential and new construction, nearly 50,000 home builders in the U.S. 48,000 of those home builders are custom home builders, building on average six homes per year.

We have two channels to cover that gamut of that very fragmented builder base. Our TruTeam business covering everything from the national home builder all the way through to the custom home builder, and then our Service Partners business really being able to penetrate that large fragment of 48,000 custom builders in the U.S. with the smaller contractor servicing.

We have two channels to really be able to service and do a great job of penetrating that very fragmented builder base across the U.S. So we think we absolutely have the best model with the right scale. We absolutely reached the diverse customers regardless of their geography, where they're performing or their size. We think that's a great, great strength of the TopBuild model.

So with that I'm going to turn this to John, he is going to take through how these streams transition into our financial position.
taking a look at revenue, the businesses had consistent and strong growth over the past three years. So roughly a 12% CAGR over that time period, that very, very closely matches and track residential housing starts in that same timeframe.

So that growth is translated into really strong EBITDA, adjusted EBITDA growth over that three years. So looking at 2012, a little bit over breakeven, up to about a 6% adjusted EBITDA margin in 2014. So Jerry is going to get up in a second and talk about growth drivers in the business on a go-forward basis and we certainly think there are many. And our expectation is that as that growth occurs we are going to drop down to the bottom line at least a 20% contribution margin on a go-forward basis.

Let's talk about then funding of that growth historically and a little bit about the other future expectations. So two buckets we'll talk about. One would be CapEx and the other will be working capital. So from a CapEx perspective, less than 1% of capital invested in the business as a percentage of revenue over the past three years. So a relatively light capital requirement for this business on a go-forward basis and that would cover machinery and equipment required to support the growth and/or replacement requirement with probably tweaks to the IT investment that we have out there.

What it doesn't cover, just to let you know, is the fact that from an operating vehicle standpoint we do lease those, most of those. From an operating least standpoint that's not included here. But every other bit of capital there, less than 1% as a percentage of revenue and that's not going to change in the future. Our expectation is that that metric will track and be required to support the future growth that we have.

So shifting to the working capital. As you can see, we've actually lowered the working capital dollars in the business despite the growth that I just covered. A great job by the team both in the field and also in our back offices. It starts with AR and that's starts with customer relationships, it also involves giving a great quality product or service on time and doing it right the first time. And when you do that, you get paid on time.

Shifting to inventory in AP, we have great relationship with our suppliers also and we offer them great efficiencies. You hear multiple times we are the biggest actor, we've got the biggest scale, that gives great efficiencies to our Supplier Partners and that get reflected in our inventory in our AP performance. And that shouldn't change on a go-forward basis either, our expectation is we'll have great working capital performance.

So talking about what that means in terms of free cash flow. The main point I want to make on this slide, as you look at the dollars we've generated, $14 million in 2012, up to $93 million in 2014, if you look at those numbers and you track those back to the adjusted EBITDA I just showed you, it's almost dollar-per-dollar the same, which just supports and validates that point that there's minimum investment required to support the growth.

So, as we drive EBITDA, we expect to deliver an awful lot of that to the free cash flow side. And so the expectation is that continues into the future also.

Like to talk now about the opening balance sheet. And John and Keith have talked about it a couple times, and I'm going to sign a check at some point for $200 million as we spin. We have been working with our banking partners in terms of putting together a credit facility, some of them are here today. We appreciate their attendance and their participation as part of this conference.

We're well down the path on that. Our expectation, and you can look at our leverage point that we've calculated using our 2014 adjusted EBITDA, up 2.2 times and as we get to mid-year spin point, that number should be below 2 times as we continue to grow this business and drive greater EBITDA. So, a relatively light leverage point at spin and we expect to delever off of that as we move forward after the spin date.
What does all that mean in terms of our financial options? So great growth ahead of us, great EBITDA performance, dropping a lot of that from a free cash flow perspective. To us that all adds up to great financial flexibility for this business on a go-forward basis. It starts with paying down our debt. The bankers are glad to hear that in the room. It talks about the great investment and the actual relatively light investment we have to fund our organic growth. I talked about CapEx and working capital as part of that. We will look at acquisitions and that could be in the areas of commercial to supplement the organic growth we've had and expect to get in the future. Could be some potential footprint expansions as starts continue to recover and as certain geographies become more attractive.

And finally, even though we announced early on that we won't be providing a dividend, we think that we're going to be able to give our Board of Directors great options in terms of returning value to shareholders could be in the form of a dividend, could be in some type of share repurchase, but we are confident that we will have the type of financial wherewithal and capability to give a whole series of options and give great, great shareholder value to our investors.

Shifting gears a little bit/ I’d like to talk about now what the path to the spin date looks like right now. And so couple of things, first of all, we think there is a clear path to that midyear spin date. Unlike a private company that has to go through the IPO process and develop a whole bunch of competencies and capabilities, we are not in that position. We also we are very, very separate from the parent today. So as TruTeam and Service Partners are standalone businesses today. We have separate IT systems, fully deployed scalable to support the growth that we have, no shared locations. So we see minimal issues in terms of the path to spin.

The other thing, we have been part of Masco for 20 years now. We are proud of that. We have a great heritage with Masco. They have stuck with us in good times and not so good times. And we think that the timing for this spin is perfect. And they have set us up to be real successful here in one area would be around corporate governance.

So just like Masco places corporate governance at the top, TopBuild does exactly the same thing and will continue to do exactly the same thing. So whether that's involved with the fact that we have already established resources and process in place to support corporate governance, whether it's the fact that we already have key controls in place to get tested and retested. Whether that's the fact that we have had 20 years of internal and external auditors coming through and auditing us, or whether that's the fact that every single one of our employees gets trained and will continue to get trained that business ethics are top of mind.

By the way, we also have an independent Board of Directors coming on board that's only going to supplement that and enhance that. So we are highly confident that we have a great leg up in terms of corporate governance as we embark upon the spin.

Last thing to talk about is there will be some incremental costs that we'll have to absorb in terms of supporting becoming a public company. So what we've done is we've got a very, very detailed bottoms-up build up that we've done. We've actually done that working side by side with subject matter experts within Masco that have helped us develop that number. So we have a high level of confidence around the accuracy of that number.

And what we're here to say today is that the total incremental cost that we anticipate absorbing will be more than offset by the corporate allocations that Masco has historically given us along with some other model improvement underway. So as we look at our EBITDA performance in the go forward, no additional impact or negative impact from the spin in terms of increment corporate cost.
So, in summary, great growth anticipated for us driving great earnings. A lot of those earnings or a significant portion of these earnings coming through as free cash flow, which is going to create great financial flexibility for us as a business on a go-forward basis. And that spin date mid-year is pretty clear at this point.

So with that I’m going to turn it back to Jerry, who’s going to talk about the growth drivers in the business.

Gerald Volas
Chief Executive Officer

Now, I was standing back over there and thinking what a lucky guy I am. I get to run a public company in Florida and I’ve got these two guys working for me as talented senior executives. These guys are awesome, great presentation. Thanks. So I hope what we’ve successfully done is helped to understand what we’re about, what this model is. Robert done a nice job talking about what our strengths are, what’s different about us, why should you believe.

John did a wonderful job kind of setting the stage on the numbers, why we think we’re coming out of the blocks in a good place. The whole governance is a big deal, especially with the kind of model we have, that’s really important. But I know that what’s critical to you is, not so much the history. That helps you understand who we are, but like what’s going to happen in the future and where is that going and how can you model this place.

So what we want to talk about here is how to think about growth for TopBuild. And so four different growth drivers I’ll put. I’ll say the first two really are factors somewhat beyond our control. And I’m not shy to tell you that this business for a lot of years had wind in our face relative to things not in our control.

So it’s good to have a couple of things at our back here and from a macroeconomic viewpoint, from an energy efficiency viewpoint that’s what we have. But that’s not going to the whole story and that’s not going to be good enough. And it shouldn’t be good enough for an investor who wants to put their money in TopBuild. We do think we’re going to supplement that wind at our back with some initiatives that we have complete control over.

Macroeconomically, here’s a five that we think are particularly relevant. I’ll start with general economy. Everything looks, smells and tastes better when the economy is good, and that’s our business as well. So that’s a good story that we do think is going to continue. As you get into specifics of our business, population growth, more people in the country they have to live at some place.

Also, formations is critical. Special story here. We believe that household formations has been artificially reduced here is in the last number of years for reasons like credit availability has continued to be a problem, unemployment has been stubbornly high up until the last year or so, student debt, you’ve heard a lot about that. So household formations for segments of the population we believe have been kept down and that can’t continue. We do not think that can continue. On the age of housing starts supplements that. Houses getting older. 300,000 houses are torn down every year. So when you take household formations you add on the number of homes that are destroyed that equals new home construction. And that’s important to us and we think that can only go one place.

And if you don’t believe that, look at this very complicated chart here. I know it’s hard to look at here at the end of the day. But I’ll take you through it real quickly. There is a couple of major points here. This is a history of housing starts over 50 years. A couple of significant numbers 1.5 million housing starts is the average. But the average over all this timeframe, keep in mind that’s the average back when the population was a lot lower than it is today.
The trough. The trough in the various cycles has averaged 1.2 million housing starts. Look at the last seven years to the very right of the chart, you see starting with 2008 for the subsequent six years look how far under not only under the average, but under the trough we have been. So my point here is, we believe big pent up demand still sits out there and it’s going unleash itself over the subsequent years. We do think that housing starts continues to go up. We have a forecast that 1.1 million housing starts, we’re planning on 1.1 million housing starts in 2015. We think it continues to go up beyond that. It’s obviously hard to know. I mean, we’d all be rich if we could absolutely predict what that trajectory is going to look like, but we think it can only go on place and that’s up and that’s a big advantage for this business model.

We talked about energy efficiency. I won’t beat that any longer, only to say that again, a initiative that began in this county a number of years ago that continues to gain traction, states, more regulation, builders are struggling to meet those understand them and then to meet those. We’re the experts; Robert talked about us being the experts. They come to us to understand what has to happen, and then how did they comply. And in addition to that it builds the take for unit in this business, requires more installation to be more energy efficient. Again, hard to estimate what that is and how far that's going to go, but we do know that that's a positive for us.

Right in the middle there the ENERGY STAR, that's recognized by the Department of Energy United States Government. Again this is probably I think a number of years that we've won this award, so validation that we in fact are the expert in this space. Again the second piece of the puzzle here that we really believe is wind at our back.

So what are we going to do? It's fine to ride the curve and we know that we will. But there's got to be more to the story than that and we're not going to be happy just riding the housing curve up. We're going to gain share in residential new construction and repair and remodel.

Robert did a nice job and John talking about what our model is, why we have scale our capability all those things that we believe position us well to compete in this marketplace. But the very last bullet point is one I'll draw your attention to and I'll take you behind the scenes just a little bit here to say that, in a disperse business model like this is, so think about 190 businesses on the TruTeam side.

Think about 75 individual businesses on the distribution side. These are all little companies. And the reason I say that is because their geographies are all different than the one that sits next to it. Different competitive set, different capability, different laborability issues, different customer base. So it's inherent in our business model and we do it really well. And I'm real stickler for simplification and for execution. And this business model having great branch managers running these businesses is absolutely critical. It's absolutely critical to driving the metrics of the business and we pay a lot of attention to that.

We pay a lot of attention from the talent acquisition, from a talent development perspective. We do a lot relative to incenting these people properly. We incent them on operating income in their geography, which forces them to pay a lot of attention to the balance. The balance that has to happen in every region that relates to price. How do you play price with volume, with laborability you've got all these different factors that are playing in a little differently to each geography and we've got to have branch manager running these shows out there that know how to do that well.

So that's a big, big piece of the execution puzzle that we pay a lot of attention to and do extremely well that is going to enable us to continue to be successful and gain share here.

Just by way of looking down below there at the very bottom two. Historically $45 million of revenue for every 50,000 housing starts has been a good way to think about this business. We are going to put that out there right
now as the expectation. We think we can do better from that, but that's a good way to model the company right now.

From an R&R standpoint, that numbers for us right now, if you do the math and some of the data you have, is about $270 million you can take that forward by GDP plus 1% to 2% is the way you should look at that.

Commercial is a big deal for us. We have crept in. We've been doing business in commercial and what I would call light commercial for some years. We do about $240 million in the commercial space today. Most of that's light. When I mean by light, I'm talking about smaller buildings, small restaurants, single storey places 25,000 square feet, places were the capability that we have with residential new construction leverages really nicely. And we've been doing that.

The other end of spectrum there is heavy commercial. So obviously what you think it is, more complicated, larger buildings, multi-story, requires a lot of specific capability in terms of different kind of material, different kind of quoting process, different go to market. We have that in some places in the organization, but we don't have it scaled everywhere. So one of the things that we are going to do is drive an initiative into the commercial piece of business here.

We think these checks all the boxes of a great opportunity. Number one, it's big. We think it's several billion dollars of opportunity here in terms of the overall space. Secondly it's very fragmented, not a big player anywhere. Our share in this market is single-digits, probably low-single digits. There is nobody else even bigger than us and there's margin potential.

So when we think about opportunity and why would we do this, it checks all the boxes in terms of opportunity. And to put a dollar amount to that, we think three years out, so by 2017, that $240 million should be $70 million to $100 million more than that and should be a very favorable, very accretive from a margin viewpoint.

So these are couple of things what we're going to do to gain share in residential and repair, what we think we can do in commercial that really are additions to top-line activity as it relates to this company. Again, all that's beyond taking the curve up with what we think is major wind at our back from a new housing viewpoint.

So to wrap it up, I hope we've done a nice job of getting you acclimated as to who we are and to why we're as excited as we are. We've repositioned the business. We think we've got the best model, we've evolved over a period of time. We've got great scale, we've got a great team, a lot of initiatives that we believe are going to drive the numbers forward. And we're sitting from a growth standpoint, as I said, in a situation where we've got wind at our back and we're supplementing that with other initiatives that we have complete control over.

So we feel good. We feel great about it. I think I probably could have convinced Keith and John to make me the second guy that stuck with Masco for long period of time. I mean, these guys are phenomenal in terms of the changes they made with Masco. So I think I probably could have convinced them, but you know what, this model is so good.

I mean, I'm so excited about what can happen here that it was just time to go and it was time to do this and we've got a great situation here and I hope you understand it better now today than you did before this presentation. And I just have to summarize, I'll give you one last line, TopBuild is a great investment right now.

Thank you.
QUESTION AND ANSWER SECTION

Thanks very much for the presentation. Great information. A quick question on some of the numbers that you threw out just so I understand. Earlier you'd referenced a 20% incremental margin and then more recently in terms of the growth drivers you kind of hit on what your new Res business, your R&R business could grow, your commercial could grow. I was curious if the 20% is kind of blended rate of all those businesses, or if the businesses have different kind of margin characteristic or incremental margins so that 20% of that the holistic number or are there gives and takes there?

Keith J. Allman
President, Chief Executive Officer & Director

John, we'll give you a chance.

John Peterson
Chief Financial Officer, TopBuild

Yeah. I think we said it is at least 20% on a go-forward. And we are kind of hedging a little bit there only because from a future expectation standpoint, to your point, the type of growth we're going to see whether it's in commercial – the line of business group we're talking about, whether there is a lot of multifamily units or single family units or what that mix looks like, et cetera. So we're being conservative in terms of that guidance and saying basically at this point at least a 20% number and we'll evaluate that and tune that up over time.

Gerald Volas
Chief Executive Officer

We like to keep it in an under-promise, over-perform, but not ridiculously. So we know that doesn't help you to give you a number that sand bags so bad that you can't make any sense out of it. So John's point, we're comfortable with that right now and we'll tweak that. As time goes on, we will definitely tweak that if history tells us something different.

Q

thought the outperformance in residential starts for the last few years has been pretty impressive. And what do you think is achievable for the next say three years to five years in terms of outperforming?

Gerald Volas
Chief Executive Officer

Outperformance of housing starts?

Of housing starts.
Gerald Volas
Chief Executive Officer

We think it's substantial. With what I talked about in residential new construction and commercial on top of that, it's hard to put a metric. I'd be stepping out of there a little too far to give you a number right now. Here is what I would say, I would say track housing starts and then add something to that. And I would say I know that doesn't give you lot to go on, but housing starts are 10%. This year they are 10%, I think we'll do every bit of that.

Irene Tasi
Director-Investor Relations

Over here?

Quick question for you. Can you talk a little bit about customer concentration and kind of the mix between home builders, large and small?

Gerald Volas
Chief Executive Officer

We don't have any concentration to be honest with you. I mean, I think our largest customers help me here, John. 2%.

John Peterson
Chief Financial Officer, TopBuild

Yeah. Roughly, yeah.

Gerald Volas
Chief Executive Officer

So our distribution on the customer, I think there's actually a schedule in the Appendix. You might have up there that really gives you some details. But we do business with all the big guys, but because of the breadth of the business and the fact that we do business with all these fragmented smaller builders as well, there's no single customer more than 2% and I think, I'll forget the metrics here, but when you add the top five, you still have a relatively low percentage.

John Peterson
Chief Financial Officer, TopBuild

Under 4% probably around.

Gerald Volas
Chief Executive Officer

So we're – because of the two models because we got the contracted business and there is distribution that gets to the smaller builder ideally, we're spread out really nicely across the whole continuum.
And is there going to be a strategy that develops to diversify more sort of away from new construction or is this a company that plans on staying more closely aligned with new construction?

Robert M. Buck  
President and Chief Operating Officer

I think that new construction will always been our lead, for sure. But we absolutely, given the size of the commercial, it’s a very great adjacency for us and the light commercial then building those competencies up to the heavy commercial, we see that mix changing, we think that residential probably will always be the largest segment, yes, probably will be, but you’ll see even more balance coming into the mix.

Gerald Volas  
Chief Executive Officer

We don’t want to lose track of the heritage of the company because I always find when developing road plans for a company that it’s really easy to get into something else that’s a little further from the core. And sometimes when companies do that they lose track of what they are really good at.

So to Robert’s point, we’re not going to lose track of what we’re really good at. But as commercial is one example of stepping out a little bit from the residential new construction and we’re going to have our heads up here for what can we do with the capabilities that this company has. I mean, we’ve got 4,000 installers and all these branches and all these relationships with builders. The question for us from an additional growth perspective and I haven’t even talked about because I’m not sure what it is, is what we can do with those capabilities. We have a lot of assets and a lot of capability with to which to think about other kinds of growth.

So you mentioned that you’re the largest player in the sector and obviously in a lot of the MSAs around the country, but there are still a lot of small operators in the sector. And so that would seem to suggest scope for acquisitions. And you have been acquisitive in the past. That’s not one of the things you’re mentioning. You mentioned perhaps some small acquisitions on the commercial side. What about on the core residential business? Is that going to be a part of the growth strategy going forward?

Gerald Volas  
Chief Executive Officer

Not in a meaningful way. And I say that because our footprint is complete. I mean, other than Fargo, North Dakota, so we’re going to take a plane out there right now, to figure out – no.

We think our footprint is fairly compete right now. Not to say that there may not be a handful as time goes on, when we find a void. I think one of the guys said here, if there is a huge amount of activity in a region that we’re not represented optimally, we could do something. But I would not think that that’s going to be a major source of cash outflow. Commercial might be a place, as we get better at understanding what’s it is going to take to ramp up that capability, there could be some acquisition activity there.

Got it. Just one and quick one on Home Services, I imagine that’s grown out of the environments for living and is the revenue source now or is that just a consultative process in terms of working with builders?
John Peterson  
Chief Financial Officer, TopBuild

It is. It’s a profitable revenue source for us, not a major one. But we absolutely get paid for. It is accretive to us from the services that we provide. But we think it provides – a term that we like to use is kind of customer stickiness, if you will. So it allows us to keep, retain customers. But then with all the code changes it’s becoming a great, great from a value proposition perspective attracting new customers as these codes continue to change.

Q

Yeah, it’s an exciting time obviously for TopBuild. And thanks for all the detail. Especially a lot of clarity around capital structure coming out. But what’s news to me is you probably do like $80 million of EBITDA for each 100,000 housing starts using your incremental. And if you go from $90 million of EBITDA up to $110 million and $130 million because of your leverage of the recovery, you don’t have a lot of CapEx, you’re going to be throwing out pretigious free cash flow.

So how do we think about free cash flow application? Is this a share buy back story? You just commented you’re not acquisitive. You’re happy with the existing footprint. You’re clearly going to deleverage at a rapid pace, so help us think through the process of value creation if you are generating free cash flow consistent with what you’ve discussed?

Gerald Volas  
Chief Executive Officer

Pretigious free cash, I love that. What do you think about that, John?

John Peterson  
Chief Financial Officer, TopBuild

Yeah, as we’ve said, we are going to throw off a lot of free cash flow in the business. Talked about de-levering quickly. We’re not going to get real specific in terms of use. We have talked about some options. And while the Board of Directors in place here at the end of the second quarter starting, future options around share repurchase and/or some type of dividend program to pay, so a lots of flexibility as we said on a go-forward basis with that type of cash we throw off in the business. And that’s the flexibility we’re going to look at and we are going to kind of hold our cards in terms of the specifics on that, but...

Robert M. Buck  
President and Chief Operating Officer

We think growth beyond the housing start trajectory, growth is important. I mean, it’s important that we work strategically to make sure this company turns into something that’s more – it’s a great housing play. It’s a great housing play, but we want to be more than that.

And so from a growth standpoint as we think strategically, it’s one of the things that we have in our mind here, how can we use our capabilities and the assets we have, and there is a long list of them that we’ve talked about. How can we do that? That’s going to be the goal strategically.
Going back to your comments about the housing starts, you said that 50,000 housing starts is $45 million in revenue. How many of those 50K starts do you actually touch and how do you change that over time?

Robert M. Buck
President and Chief Operating Officer

From the standpoint of how many we touch, so that's really the blended — if you take 50,000 housing starts and you calculate our share on that and you go through all the calculations required that's historically represented what happens in our model given our share, given the take per unit that we experience for 50,000.

What is the share and if you don’t mind sharing that?

John Peterson
Chief Financial Officer, TopBuild

When we think about residential new construction the housing starts, obviously it's a very local business. But we touch about for every 100 houses in the U.S., we touch about 35%, probably a little better, of those houses, probably a little higher than that, of those houses as it relates to residential new construction starts.

Thank you.

Robert M. Buck
President and Chief Operating Officer

Now keep in mind that there is a lot of nuance in that calculation having to do with the mix. I mean, take per unit on multifamily is much lower than single, but that's a pretty good average to think about.

Irene Tasi
Director-Investor Relations

Over to [ph] Richard. (4:01:40)

Hi. Just a couple of questions. Turning to the Service Partners, is there a – I know it's mostly insulation distribution, but is there a lumber component, do you sell framing lumber and those sorts of products?

Robert M. Buck
President and Chief Operating Officer

No lumber. Insulation is by far the biggest product category, rain gutters, which Jerry hit on, the portfolio, a little bit of roofing, very little. But there are lot of accessories around insulation really.
Okay. And then two other quick ones. One is just in the case of the distribution business, are you in some cases selling to contractors that your TruTeam is essentially competing against?

Robert M. Buck  
President and Chief Operating Officer

There is some of that. It's very little overlap based on how the footprint works. But there is actually there is a lot of insulation contractors out there that does happen on limited basis, but some places, yeah.

Gerald Volas  
Chief Executive Officer

We've done a lot of work from a research standpoint and we think that that overlap that you're talking about is small. I think the 10% range meaning the 10% of the time that our TruTeam contractors bidding on business he runs into a customer of Service Partners.

And then the other piece of the puzzle is what we know is that as long as Service Partners is providing great service, and they do, their customers don't really care if they're a sister company to TruTeam. It really has not been near as big as anybody would have guessed.

Q

Okay. And then final one is, I would assume and may be incorrectly, that TruTeam would have a higher margin because it's acting both like a distributor and a contractor. Is that the case, is there a big difference in margins between the two businesses?

Gerald Volas  
Chief Executive Officer

I would answer that, but I think in a more normalized environment, which we're headed towards. I think you'll see that dynamic develop that you have. So two things. First of all, as a distributor, Service Partners is highly successful from a margin standpoint would be the first comment. The second comment would be as housing starts begin to normalize, I think you will see the very dynamic that you just said happen.

Irene Tasi  
Director-Investor Relations

We have two questions before we end today from the webcast. One is the TopBuild team is the margin profile across new construction, R&R and commercial similar?

John Peterson  
Chief Financial Officer, TopBuild

We have, if you look at the three lines of business essentially, they're relatively close. And I think Robert or Jerry alluded to it, we actually seen a really strong margins in the repair/remodel in the commercial side and in some cases actually slightly higher than we see on residential. A lot depends on the mix of channel customer, et cetera, but I would say those two other lines of business are even slightly higher on average than our residential would be.
And then this is actually for our Masco team here. Can you please discuss why Masco decided to spin-off TopBuild to shareholders rather than sell it? [inaudible] (4:04:33) big role on that decision?

John Peterson
Chief Financial Officer, TopBuild

Yeah, I can take that question. Tax consequences did play a big role. Though the tax respin that we’re doing requires us – the dividend is related to the size of our tax basis.

So, our tax basis is just north of the $200 million dividend that we’re getting. As you can see, we’d have a fair amount of tax leakage with the transaction if we were to do a sale process. So that’s why we chose the spin path.

I’ve got a microphone and can’t resist myself. I’ve got one other Masco answer that I should get out there. For everyone’s modeling assumptions, for the $1.80 per share, there’s 315 million shares that we’re using for that $1.80. 315 million, just to make certain that we clear as to how many shares we’ve got outstanding.

Irene Tasi
Director-Investor Relations

Okay. Thank you.

Keith J. Allman
President, Chief Executive Officer & Director

Thank you very much.