23-Apr-2025

Masco Corp. (MAS)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Robin L. Zondervan
Vice President, Investor Relations and FP&A, Masco Corp.

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

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

OTHER PARTICIPANTS

Michael Rehaut
Analyst, JPMorgan Securities LLC

Stephen S. Kim
Analyst, Evercore ISI

Sam Reid
Analyst, Wells Fargo Securities LLC

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

John Lovallo
Analyst, UBS Securities LLC

Matthew Bouley
Analyst, Barclays Capital, Inc.

Mike Dahl
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

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

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

Robin L. Zondervan

Vice President, Investor Relations and FP&A, Masco Corp.

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

Our first quarter earnings release and the presentation slides are available on our website under Investor Relations. Following our remarks, we will open the call for analyst questions. [Operator Instructions] If we can't take your question now, please call me directly at 313-792-5500.

Our statements today will include our views about our future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. We described these risks and uncertainties in our risk factors and other disclosures in our Form 10-K and our Form 10-Q that we filed with the Securities and Exchange Commission.

Our statements will also include non-GAAP financial metrics. Our references to operating profit and earnings per share will be as adjusted unless otherwise noted. We reconcile these adjusted metrics to GAAP in our earnings release and presentation slides, which are available on our website under Investor Relations.

With that, I will now turn the call over to Keith.

Keith J. Allman

President, Chief Executive Officer & Director, Masco Corp.

Thank you, Robin. Good morning, everyone, and thank you for joining us. I want to start today by talking about some significant changes that have occurred since our last quarterly call. One of these changes was the announcement of my decision to retire as President and CEO of Masco and the appointment of Jon Nudi as our incoming President and CEO. It has truly been an honor to lead Masco for over a decade and I'm so very proud of all our employees and the work we've accomplished together.

We've built and refined our core portfolio of leading brands to focus on innovative repair and remodel products. We've embedded the Masco operating system throughout the entire company, which has allowed us to significantly expand our operating profit margins.

And finally, we've delivered long-term value to our shareholders, achieving compound annual earnings per share growth of more than 12% over the last five calendar years. I'm confident that Masco is in great hands going forward under Jon's leadership.

Jon has been on our Board of Directors since 2023 and I've seen first-hand his strategic vision, his commitment to customer service and his recognition of the strength of our Masco team in delivering superior results.

I am currently working very closely with Jon in order to ensure a seamless transition and we are excited about officially welcoming him to the Masco team at the beginning of July. We also experienced significant changes in the geopolitical and macroeconomic environment, including the enactment of new and broad reaching tariffs. The extent of the tariffs currently imposed on imports from China is substantial and will increase our overall costs considerably, particularly in our Plumbing segment.

Our experienced teams are actively taking steps in an effort to mitigate these increased costs. Our mitigation efforts are extensive and include pricing actions, additional cost savings initiatives, and ongoing changes to our sourcing footprint.

As we have done in the past, we are rapidly responding to the shifting economic landscape. However, a high-level of uncertainty remains around how these changes and associated higher prices will ultimately impact demand trends across our industry moving forward. Therefore, we will not be providing full-year financial guidance this quarter. However, we do want to dimension how we are thinking about the impact of tariffs and the related mitigation actions in 2025.

First, based on the tariffs enacted this year, we expect in-year costs of approximately $400 million prior to mitigation efforts. Second, based on our extensive mitigation actions, we currently estimate that we can offset approximately $200 million to $250 million, or roughly 50% to 65% of these costs during the current year. We currently anticipate mitigating the remaining net tariff costs by the end of 2026.

Finally, while it is reasonable to assume a potential softening of demand in the near-term, we are not yet able to estimate the timing or extent of the impact on volumes that may result from the direct or indirect impacts of these additional tariffs.

Rick will provide additional details in a few minutes about these expected in-year and annualized impacts from the enacted tariffs and our related mitigation actions. Our teams have demonstrated their capability to manage through these environments in the past, from the COVID pandemic to unforeseen supply chain challenges to previously enacted tariffs. Therefore, we are confident that we have the right teams and plans in place to work quickly toward mitigating the various impacts arising from the recently enacted tariffs.

Amidst all these changes and the work we are doing to address their impact on our business, we remain focused on our core strengths, our marketed brands, our exceptional customer service, and our innovative product portfolio.

This quarter, we introduced several innovative new products and received a variety of awards across our businesses, a few of which are highlighted on slide 5. Beginning with North American Plumbing, Delta faucet showcased multiple new and award-winning products at the Kitchen and Bath Industry Show held in February, including the PivotPro 3-in-1 Combination Shower, the Showersense Digital Shower, and the Brizo Frank Lloyd Wright kitchen and bath collections.

Additionally, Delta faucet received multiple awards in recognition of their outstanding service to their customers, including the prestigious J.D. Power's Customer Service Excellence Award, which they received for the fourth year in a row.

In our spa business, Watkins Wellness launched two new cold plunge products. Cold plunge is the ideal complement to our existing spa and sauna portfolio, as customers can enjoy the multiple benefits of integrating both cold and hot therapies into their wellness routine.

In our international plumbing business, hansgrohe, continued to demonstrate their leadership at the ISH Sanitation and Heating Show held in March. Two of their new premium products, Raindance Alive and Avalegra, received iF Design Gold awards in the Sanitary category. Since 2015, hansgrohe has won more iF Gold awards than any other manufacturer.

In our Decorative Architectural segment, Behr was voted the most trusted paint and stain brand among consumers in the United States and Canada by BrandSpark, demonstrating the continued strength and exceptional quality of our leading Behr brand.

With that, I'll now discuss our first quarter results. Please turn to slide 6. In the first quarter, our top-line decreased 6%, partially due to our divestiture of Kichler in the prior year. Excluding this divestiture and the unfavorable impact of currency, sales decreased 3%, primarily due to lower volumes in the Decorative Architectural segment. Gross margins increased 20 basis points to 35.9%. Operating profit was $288 million and operating profit margin was solid at 16%. Earnings per share for the quarter was $0.87.

Turning to our segments, Plumbing sales increased 1% in local currency. North American Plumbing sales also increased 1% in local currency, driven by higher volumes in our spa and sauna business and favorable pricing, partially offset by lower volumes in our retail channel. International plumbing sales were flat in local currency, as higher volumes in Europe and slightly favorable pricing were offset by unfavorable mix.

Operating profit for the segment was $219 million, and operating margin was 18.5%. We are pleased with our overall performance in the Plumbing segment this quarter, as sales were slightly higher than anticipated and operating margin was in line with our expectations.

Turning to our Decorative Architectural segment, sales decreased 16% or 8%, excluding our divestiture of Kichler. Overall paint sales were down high-single digits and included a partial reversal of the inventory timing benefit that impacted Q4 of 2024. Excluding this impact, overall paint sales were down mid-single digits and DIY paint sales were down high-single digits, while PRO paint sales were up mid-single digits. Operating profit for the segment was $96 million and operating margin was 15.6%.

We are seeing ongoing demand pressure across the industry in DIY paint driven by dampened macroeconomic environment and expect that this will continue as the year progresses. However, we continue to grow in the PRO paint category, driven by the quality and performance of our products, the strength of our partnership with the Home Depot and our expanded services and support for our PRO customers. This has led to ongoing share gains as we continue to capitalize on the sizable growth opportunity in the PRO paint market.

As we look across both segments for the balance of the year, we anticipate demand softening as consumers spend more cautiously amidst this uncertain economic backdrop. However, as I mentioned earlier, the extent and duration of this impact cannot yet be determined until there is more clarity on the tariff policies and the overall macroeconomic conditions.

Once that occurs and as additional information becomes available, we will be able to provide further financial guidance at that time. Masco is a resilient company and the long-term fundamentals of the repair and remodel industry remain strong. Our product portfolio is well-positioned to deliver meaningful results as we execute on our strategic initiatives and maintain our disciplined capital deployment.

As I reflect on my tenure as CEO of Masco, it's the strength of our people and our teams that has allowed us to outperform the market and drive long-term shareholder value creation, especially in dynamic times. Our people are at the heart of what we do each day and we remain focused on driving results through our leading global brands, innovative products, and customer service.

With that, I'll turn the call over to Rick for further details around our first quarter expected tariff impacts and related mitigation actions. Rick?

Richard Westenberg

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

Thank you, Keith, and good morning, everyone. Thank you for joining. Before I get started, I'd like to take a moment to congratulate Keith on his successful 27-year career at Masco. Through his strong leadership, he has been instrumental in reshaping Masco's portfolio, driving significant operational improvements across the company, developing senior leadership talent, and delivering outstanding financial results. On a personal note, I'd like to thank Keith for his partnership over the past year and a half and wish him all the best in his future endeavors.

Now, turning to our results. As Robin mentioned, my comments today will focus on adjusted performance, excluding the impact of rationalization charges and other one-time items. Turning to slide 8, sales in the first quarter decreased to 6% or 3%, excluding the impacts of our divestiture of Kichler in unfavorable currency. Our divestiture of Kichler in the third quarter of 2024 decreased sales by 3% year-over-year in the first quarter of 2025.

In local currency, North American sales decreased 7% but decreased 3% excluding the divestiture impact. International sales were in line with the prior year in local currency. Gross margin increased 20 basis points in the quarter to 35.9%. SG&A decreased $9 million year-over-year, driven by our divestiture, partially offset by increased marketing expenses. SG&A as a percent of sales was 19.9% in the quarter.

Given the current environment, we are actively managing our expenses and taking appropriate cost savings actions. Operating profit was $288 million in the quarter and our margin was 16%. Operating profit was impacted primarily by lower volume and higher marketing costs. Lastly, our EPS was $0.87 per share.

Turning to slide 9. Plumbing sales decreased 1% in the first quarter, but increased 1% excluding the unfavorable impact of currency. Favorable pricing increased sales by 1%, offset by unfavorable mix, which reduced sales by 1%. In local currency, North American Plumbing sales increased 1% in the quarter. This performance was driven by continued share gains in the e-commerce channel and growth at our specialty spa and sauna dealers, partially offset by softness in the retail channel.

In local currency, international plumbing sales were in-line with the prior year, driven by favorable volume and pricing actions, offset by unfavorable mix. hansgrohe achieved growth in its key market of Germany as well as other European markets. This was offset by softness in various other markets, particularly China. Segment operating profit in the first quarter was $219 million and operating margin was 18.5%. Operating profit was impacted by unfavorable mix and higher tradeshow costs during the quarter, partially offset by cost savings initiatives in a favorable price-cost relationship.

Turning to slide 10. Decorative Architectural sales decreased 16% in the first quarter. The divestiture of Kichler lowered sales by 8%. In the quarter, total paint sales decreased high-single digits, impacted by a partial reversal of the favorable inventory impact in Q4 of last year, as mentioned in our February call. Excluding this unfavorable inventory impact, total paint sales were down mid-single digits in the first quarter, with PRO paint sales up mid-single digits in line with our expectations and DIY paint sales down high-single digits below our expectations.

DIY paint performance was driven by continued softness in the DIY market and we now anticipate this weakness to continue as the year progresses. Operating profit in the first quarter was $96 million and operating margin was 15.6%. Operating profit was primarily impacted by lower volume, including inventory timing.

Turning to slide 11. Our balance sheet remains strong, with a gross debt to EBITDA at 2.1 times at quarter-end. We ended the quarter with $1.2 billion of liquidity, including cash and availability under our revolving credit facility. Working capital was 18.7% of sales at quarter-end in-line with Q1 2024.

Given our strong cash performance, we were able to return $196 million to shareholders through dividends and share repurchases, including the repurchase of $130 million in stock in the first quarter. As it relates to capital allocation for the remainder of the year, there is no change to our overall framework. We continue to expect to invest approximately $175 million through capital expenditures to pay a dividend of $1.24 per share and to deploy all available free cash flow towards share repurchases or acquisitions.

Lastly, as Keith mentioned earlier, given the highly volatile and uncertain market environment related to tariffs, we are not providing 2025 financial guidance. However, I will try to provide some clarity around our tariff exposure and impact based on the currently enacted tariffs, as well as, the estimated benefits from our ongoing mitigation actions.

As discussed on our fourth quarter call, our current import exposure to China tariffs is approximately $450 million, representing a 45% reduction from our peak exposure in 2018. We estimate the total annualized impact from incremental tariffs to be approximately $675 million before mitigation. This includes the incremental China tariffs of 145%, which amounts to an annualized cost impact of approximately $625 million, plus an approximately $50 million of incremental annual expense from tariffs on steel and aluminum and the 10% global reciprocal tariffs.

Of this, approximately $675 million total annual cost, we expect a 2025 in-year impact of approximately $400 million before mitigation, with the impact largely occurring in the second half of the year. We are actively working to mitigate these additional costs through price increases, cost reductions, and continued efforts to change our sourcing footprint.

First, we expect to implement meaningful price increases over the course of 2025. Second, we are expanding our cost reduction efforts across the business, delaying or eliminating non-critical spend while preserving investments in key growth areas of the business. Furthermore, we continue to work with our suppliers to achieve additional cost reductions.

Based on our expectations of the extent and timing of our price and cost reduction actions, we currently believe we can mitigate approximately $200 million to $250 million, or roughly 50% to 65% of the tariff costs in 2025, leaving a net impact of approximately $150 million to $200 million in 2025 prior to any potential volume impact.

As we exit 2025, we believe our actions have the potential to mitigate 60% to 75% of the impact of the currently enacted tariffs on a run rate basis. We will continue to work to mitigate the remaining impact by the end of 2026 through accelerating changes to our sourcing footprint. It is important to note that these tariff impacts and mitigation estimates do not consider potential unfavorable impacts on volumes related to price increases or the overall market environment. These impacts remain highly uncertain, as does the overall tariff and macroeconomic environment.

Additionally, these estimates are based on currently enacted tariffs and do not attempt to estimate the impact of potential future tariffs or changes in existing tariffs. Needless to say, the overall environment remains highly uncertain. We will provide updates to the impacts on our business as appropriate and expect to update our outlook for 2025 once we have more clarity.

To echo Keith's comments, I would like to recognize and thank our teams for their tremendous efforts in responding to this rapidly changing environment. Our teams have a demonstrated track record and I'm confident in our ability to navigate these challenging times.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Michael Rehaut with JPMorgan. Your line is now open.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Thanks and good morning, everyone. Thanks for all the comments. And, Jon, welcome to the call and to the company. First, I'd love to delve a little bit into some of the top-line trends, not only in the first quarter, but if you can provide any kind of commentary on April. You mentioned during the prepared remarks that your DIY paint was a little bit below expectations. I'm really more interested in the trend line through the first, let's say, roughly four months of the year, both in paint and plumbing. And, if you have any kind of insights into maybe 2Q overall how we should think about the top-line. Thanks.

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

A

Thanks. Thanks, Mike. Just to be clear, I'm on the call today and Jon will be joining us in July.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Yeah. No. Got that. Wasn't sure if he was there, but – okay. Thanks.

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

A

Yeah. Fair enough. So, with regards to how the overall top-line trends are looking, as we sit here, kind of mid-April, in e-commerce, I'll take a channel cut at it first. In e-commerce, we continue to have really, nice strong performance. So, that continues to be a favorable aspect of our business. We've been investing in that both in terms of technology and people for quite some time, have what we believe to be a leadership position and that continues to grow and do well for us.

We did particularly well in international plumbing. That continues to be strong for us in Central Europe. We're seeing and getting more stabilization specifically in our home country of Germany, where we're the share leader and that continues to go well. Of course, we're having a little bit of a slowdown, if you will, in China. It's higher end part of our business. So, that's giving us a little bit of a mix hit geographically when we think about the overall international plumbing demand in China.

In the US, we're seeing in Plumbing a little bit of softening in both the trade and the retail channel, but particularly in the retail channel. And then, on the paint side, very strong performance in our PRO paint segment. We continue to, what we believe to be outgrow the market and gain share. So, we're gaining share and we're holding share. Very strong Net Promoter Scores continue with our customers and the value proposition that we're able to deliver with our partner, the Home Depot, remains strong.

We are seeing some softening in the DIY paint market. This has been relatively consistent and we can expect, again, this is a view in terms of the future. But we expect this softness to continue through remainder of the year. So, I think, we've got pockets of good strength and continued growth that are favorable. But overall, I would say that, our view is that the consumer is tentative, particularly as we look at the volatility that exists in both geopolitically and from a macroeconomic perspective. So, hopefully, that gives you a little bit of view across the, [ph] around the horn (00:27:25).

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

No, no. That's very helpful, Keith. Appreciate that. I guess, secondly maybe to try and dimensional a little bit, specifically when you talk about the mitigation efforts on the tariffs and specifically the price increases, which I would assume would be the primary offset or mitigation action for the back half of this year at least. And correct me if I'm wrong on that. But, if we're talking about $200 million, $250 million, maybe you could kind of dimensional that in terms of maybe what that would mean in terms of an average price increase for your key plumbing products.

And if you've seen any type of prior instances of demand elasticity or inelasticity or the amount that you would expect maybe demand to react off of those price increases, let's say, in a vacuum. I know that obviously a lot of different macro drivers influencing demand as well, but if you have any thoughts on that?

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

A

Sure, Mike. It's Rick. I'll take a shot at that. So, as we articulated in terms of our mitigation, components of our mitigation actions, there's obviously a number of facets to it. The main buckets are pricing, cost reduction, and sourcing footprint changes. And as you anticipated, at least in the near-term i.e. 2025, the bulk of those actions are going to be pricing and cost reductions. Those are the things that we can pull in the near-term. Sourcing footprint is something that we continue to focus on. We've made meaningful progress in terms of changing our sourcing footprint over time and the team continues to execute and to accelerate that. But, it will take a longer horizon to effectuate some of those sourcing changes.

So, as it pertains to 2025, it is primarily price and cost. The bulk of – majority of that is pricing as you anticipated. We are not going to quantify the pricing magnitude per se or the price increases. They vary by business unit and they vary by product category. And it's over the course of 2025, as you would anticipate, the tariffs started to roll into effect on February 4, continued in March and then again escalated in April. And so, our pricing has been responsive to that and we're going to continue to execute on that.

As it pertains to elasticity, I think, we're in a bit of uncharted territory as it pertains to that. We obviously are confident in the strength of our brands and our product. So, we think there's some resiliency there. But ultimately, just given not only the elasticity dynamic, but the uncertainty in terms of the macroeconomic and the consumer sentiment are unknowns. And quite frankly, that is really the root of why we were – we prudently decided not to provide financial guidance, just given the uncertainty, but the teams like, rest assured, the teams are hyper focused with regards to developing and executing mitigation strategies. And as Keith mentioned in his remarks, we've got confidence given the teams experience and capabilities that we'll navigate this as we've done in the past.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much, Rick.

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

Sure, Mike.

Operator: Your next question comes from Stephen Kim with Evercore ISI. Your line is now open.

Stephen S. Kim
Analyst, Evercore ISI
Q

Thanks very much, guys. And, yeah, we obviously appreciate all the efforts here to give us some framework for how you're going to manage this tariffs thing. I guess, I wanted to drill in on the pricing. I guess, with respect to being in unchartered territory because of consumer sentiment and those impacts, I mean, it seems like in DIY paint, you're already starting to see that. And you haven't even taken any pricing actions really, I'm assuming, yet.

I'm curious if you think that, maybe what you're seeing in the consumer is, maybe some stockpiling ahead of some tariffs and maybe they're cherry picking or prioritizing some products where they think that they could be vulnerable and paint would maybe not be one of them. And if you think that had any impact on, what you saw in the quarter, or if there's anything else that would provide a little bit of color for why DIY paint in particular, would have been impacted? It feels like more than some of your other products particularly, PRO paint seems like it did better. And just if you could help us drill in a little bit more about what you saw in the DIY paint that caused the miss relative to what we are looking for.

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

Hey, Stephen, Keith, with regards to stockpiling, we don't have specific data where we've went out and queried the consumer to see if they're stocking up and putting faucets in their basement or stacking up gallons of paint in anticipation of future projects. I doubt significantly that that is the case as we see rather consistent POS data, not indicative of something like some sort of a pre-COVID stockpile of some consumer goods or something of that sort. So, I discount that and I'm confident that even though I don't have data.

With regards to the DIY paint performance, this is something that we've seen consistently now for, geez, a number of years where, if you recall having been following us for a while, Stephen, where DIY paint was a flat to slightly down kind of market overall for call it five years. And of recent times, as we see the demographic shift of the baby boomers who were very much, strong and avid painters now getting to an age where they're choosing to use a professional to install the paint rather than themselves and the backfill of the millennials, which we are seeing. And we do believe that when – and our data shows that they are not only DIY-ers, but multiple project DIY-ers rather than, say, a one and done. So, it's just not – it hasn't come to the level of where it's backfilling that. So, there's clearly a shift from DIY to PRO. So, that's a component of it.

Secondly, when you think about sensitivity, we believe that the consumer that is in that DIY market tends to be more price-sensitive and more sensitive to overall macroeconomic concerns like we're in now than a more affluent customer. So, interestingly, when we look across our portfolio, we continue to see the higher end consumer hanging in there relatively robustly when we look at a higher end plumbing brands, for example. We do see, continue to see some pretty good demand. So, I think, it's a combination of the consumer itself and that DIY space as it relates to sensitivity to price and a migration from a heavy consumer that is continuing as it relates to the baby boomer starting to hire a pro.

Now, when I step back and look at what type of assortment I would want to have leading into these kind of conditions as it relates to what's going to be the most resilient and tough times, what's going to be able to rebound. It is, in fact, a lower ticket repair and remodel product, particularly the products and the assortments that we have, that give "a very nice bang for the buck." So, I think when you combine that, the strength of our assortment that we've built over time together with the experience of our leadership teams even though these are tough times, I think, we have a nice hand to play.

Stephen S. Kim
Analyst, Evercore ISI

Q

That's really interesting. Just want to sort of pull on that thread a little bit more, Keith. So, initially when you were talking about the fact that the price elasticity was typically more felt immediately by the lower end consumer, I was curious as to whether you thought that that could actually lead to maybe a richer mix. But, it sounds like what you're saying is that, maybe that might happen in the near-term, but then on a longer term basis, you actually think that the lower end, which is maybe more need based is going to be more resilient. So, I want to make sure I'm understanding that what you're describing there is a bit of a dichotomy from a timing perspective. And then, that kind of leads into my broader question, which is about how dynamic you can be with pricing. We're not used to situations where you're sort of needing to increase price and then maybe take it back and all that.

But we're living in a world right now where the primary driver to your need to raise price is actually quite unpredictable. And so, I'm curious if you could talk about your ability to be dynamic with your pricing as we may be heading into uncharted waters there.

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

A

Yeah. Great questions. In terms of the mix, while we are seeing the premium consumer hanging in there, I do believe and we did see a little bit of a mix hit this quarter. And I do believe in tough economic times, generally speaking. There will tend to be a trade down. We've worked hard as we've discussed in the past, in prior calls, to use our operating system to reduce the margin performance across both pricing segmentation in the assortment as well as various channels, so that we are more agnostic to shifts across channels or across price segments.

But, there will be, I believe, a mix shift down. Now, in this environment an interesting thing to consider is, while I believe there will be and we are seeing a mix shift down in prior cycles like this, I've seen the private label portion of the assortment take some share. We generally perform pretty well, because we're across all the segments, but it's a little. It will be, I believe, a little bit different dynamic due to the high concentration of China by in that private label piece of the assortment.

Stephen S. Kim
Analyst, Evercore ISI

Q

Yeah.

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

A

So, I do think there will be within segments of the assortment, there will be a trade down with the caveat of, I'm not so sure about what's going to happen on the private label side. With response to pricing and being able to be dynamic with the pricing, you're exactly right. And that is what we are driving our leadership teams towards, is the ability to not only understand our assortment and to have a keen data set on where that sweet spot is between price and volume.

Obviously, this is a multi-prong approach. We do not believe that pricing alone is the best, most competitive tool set to manage through these dynamic times. We think it is a combination of pricing, cost out, supplier negotiations, and footprint changes. So, we're driving across that whole basket of initiatives. But the ultimate objective here is to reach the profit maximization point as it relates to the combination of all those factors, volume and price being primary.

So, the ability to be dynamic with our pricing, to be able to execute, to understand the best price to be at and to be able to execute that quickly both ways, both up and down together with very strong drive on the cost outs we think is the right dynamic.

And again, in these kind of times, it's really about the people and it's about the systems we have in place and the portfolio that you're dealing with. And we are dealing with what I believe to be the best possible portfolio of products and businesses that we could have going into an environment like this, because we set out to build that less cyclical, more resilient high margin.

We're also dealing with an extremely experienced team. We recovered from COVID and we brought higher margins to our investors. When we had, unheard of price escalations, we were able to manage that with higher margins, more price, and took market share. When we were dealt with absolutely unheard of supply chain challenges, whether you talk about a ship blocking the Suez Canal or a freeze in Southern Texas, Texas that practically took down the petrochemical industry to a paint colorant plant exploding.

We were the most dynamic in that environment and we took significant market share in paint, for example, through those. So, we're a battle-tested team. And, whilst nobody wants this sort of macroeconomic challenge, we're ready for it, both with our assortment and with our dynamic pricing capability and with our dynamic supply chain.

Stephen S. Kim
Analyst, Evercore ISI

Q

Got it. Best of luck and, yeah. Appreciate all the color. Thanks.

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

A

Thanks, Steve.

Operator: Your next question comes from Sam Reid with Wells Fargo. Your line is now open.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

Awesome. Thanks so much. Wanted to touch on the new build channel. I know you have some exposure here on the plumbing side. There's been some talk about one of your large competitors attempting to take share in new builds. Have you had to adjust your go-to-market strategy with respect to price and maybe just contrast price realization potential from tariffs and new build versus some of your more traditional and retail trade channels? Are you expecting to get more price realization in retail and trade versus say the builders given the dynamic?

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

A

Yeah. We're a remodel – repair and remodel company. I think, our mix is north of 85% of repair and remodel and we – approximately. And we pick and choose the new build customers that we go after that value the innovation and the service basket that we bring to them. So, that is not a part of our focus in terms of a specific pricing strategy and how we're looking to price across channels and ability to get price and how hard or easy it is across different channels. I'm not going to get into that. We're not going to get into our specific pricing strategies, for obvious reasons. But, I will tell you that we have – it's not only just the dynamic capabilities in our systems to get price, it's also our talented sales force and our commercial folks.

And it's the value we bring with our strong brands and innovation pipelines to give us that must-have position on the shelf, so to speak. So, it's a whole collection of what Masco brings. And we're going to continue to drive that. I feel good about our capabilities entering into these challenges.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

No. That's helpful, Keith. And then, maybe switching gears and you sort of alluded to this in your response to, Steve but maybe just to put a finer point on this. Just want to think through brand performance quarter-to-date. So, you'd sell brands like Delta which maybe are a little bit more over indexed to home centers. You sell brands like Brizo and index to higher income consumers. Just curious if there's been any noticeable differential in terms of performance across those brands quarter-to-date. Has the consumer has digested the early effects of tariffs? Thanks.

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

A

Yeah. Well, as I said earlier, we're seeing some strong performance in e-commerce and in our international plumbing businesses. It's tough, as I've always said to really nail down specifically the market size quarter-to-quarter. But, when we look across our businesses versus and performance versus competition, I'm very comfortable in saying we're gaining share in e-commerce and we're gaining share in international plumbing. And they're doing a great job there. With regards to, in the showroom and the higher end, we've got pockets of our higher end still hanging in there in geographies internationally where we tend to have a higher mix there still hanging in there well, so less affected. And we are seeing some pressure, as I mentioned in retail and specifically in the DIY paint area.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

That's helpful. I'll pass it on. Thanks.

Operator: Your next question comes from Anthony Pettinari with Citi. Your line is now open.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. And Keith, congratulations for everything you've done at Masco and the next chapter.

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

A

Thanks.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Rick, you talked about changes in sourcing and I'm wondering if you can talk about kind of how you're attacking this, maybe versus the last round of tariffs and I guess, first Trump administration or maybe even during the pandemic. Is this moving out of China into Asia or Mexico and Canada or back to the US? And if you can just talk about sort of the activities involved and has some of the sort of low-hanging fruit in terms of resourcing been picked or how do you think about it?

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

A

Sure. Good morning, Anthony. So, as you alluded to, we've been on a sourcing footprint journey for a number of years, really dating back to 2018, 2019. And we've successfully reduced our exposure, our tariff import exposure to China by about 45% and that journey continues even predating the tariffs that were enacted this year. The team had been working very methodically to migrate our footprint to different jurisdictions. I'm not going to get into the specifics of the strategy, but it has been something that the team has continued to do in a very cost-effective way.

Clearly, given the increase in tariffs specifically on China, we've accelerated or accelerating those efforts. And as we articulated, it is something that we're working through this year but will stem into next year as well. As it pertains to the US, we do have, it's worth noting, a very strong and robust footprint in the US. We've got 29 manufacturing facilities and a similar number of warehouses and distribution centers. And a majority of our sourcing for the US market is in the US. But we have a diversified and extensive supply chain. Like many multinational companies, it's international in terms of sourcing and similar to ours, it is. And from our perspective, we're focused on a resilient, diversified, and robust supply chain.

And we'll factor that in as we continue to make moves. In terms of the specific geographies, that's something that we continue to evaluate running scenarios as it pertains to what may happen in the future. Quite frankly, that's part of the challenge in terms of the uncertainty and the dynamic environment of the tariff policy as it stands today. But, rest assured, the team is working very assertively in terms of not only reducing our exposure to China, but making sure that we've got a robust and resilient supply chain going forward.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. And then, just to follow-up, you talked about, I think, April demand by channel. I'm just curious, did you see consumers or channel partners really pull back hard following the tariff news itself, which I think was April 2, or is the volume impact that you're talking about maybe more anticipatory or something that you sort of expect to occur?

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

A

The volume trends, I think, that Keith articulated are really what we've seen year-to-date. So, as articulated in Q1, our opening remarks in terms of our strengths from an e-commerce perspective as well as a PRO paint standpoint in international plumbing and our continued industry weakness in DIY paint are ones that we've seen kind of year-to-date. Really, we haven't seen any meaningful inflection points as it pertains to post the April 2 announcement. I think, it's just introduced amount of uncertainty and volatility in the market as it pertains to expectations and consumer confidence, as we've all seen.

And that's something that is really, highly uncertain in terms of how it's going to play out. But, it's still early days and we're monitoring and tracking the situation very closely. Given the uncertainty, that's why we've elected not to provide an outlook not only on the market, but in terms of our financial expectations for the year.

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

A

In terms of inventory, if that was what you were getting at, we really what we've seen is what I would classify as typical seasonal trends on inventory. We did have some beneficial inventory that we pull forward last year in Q4 that we talked about on the last call and we saw a partial unwinding of that this quarter. But I would say, no significant changes as it relates to inventories in the channels.

Anthony James Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. I'll turn it over.

Operator: Your next question comes from John Lovallo with UBS. Your line is now open.

John Lovallo
Analyst, UBS Securities LLC

Q

Good morning, guys. Thanks for taking my questions. The first one is on the partial reversal of the inventory timing that you talked about on paint side. It seems to imply that there's some more that needs to be worked through. Can you just help us kind of quantify the impact that's expected in the second quarter?

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

A

Sure, John. So, just to maybe dimension the reversal that we saw in Q1. So, the way I would think about it is a couple of fold. One is our paint sales in Q1 were down high-single digits, adjusted for the reversal of the favorable inventory build in Q4 and in one of, in our key channel partner, we were down mid-single digits. So, the difference between high and mid-single digits. The other way to triangulate it is, we were down 16% year-over-year in terms of our Decorative Architectural product sales, half of that related to our Kichler divestiture and the other half related to basically volume and half of that volume or roughly 4% related to the partial unwind of the inventory.

As it pertains to what we see going forward, it's not an exact science. Obviously, the inventory varies quarter-to-quarter, year-over-year. But what I would say is that inventory levels in the channel are still higher year-over-year. A big chunk of that reversed in Q1, but there is a presumably potentially more "normalization" to be expected. We're not going to size that at this point, but there's still something that we think is still potential headwind going forward. And that's reflected in terms of our expectations.

John Lovallo
Analyst, UBS Securities LLC

Q

Understood. The follow-up would be then just on the SG&A side, the 19.9% is a percentage of sales. Understanding that there's some loss of leverage there and you talked about higher marketing costs. I guess, I wanted to focus on the higher marketing costs. I mean, can you quantify what that was in the quarter and the ability to kind of pull those out here as we move forward?

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

A

Sure, John. Yeah. The higher marketing costs are principally related to the higher tradeshow costs in Q1 that we communicated in our Q4 call in February that we expected to see in Q1. So, that's not only the KBIS show in Vegas, but principally the biannual ISH show in Frankfurt. And so, from a standpoint of year-over-year, that's a big driver in terms of "marketing" cost. In terms of sizing, I guess, what I would – how I would characterize it is, in terms of our plumbing segment, we were down $9 million year-over-year. And I would say a majority of that could be attributed to a number of factors. But a majority of that could be attributed to the higher trade show costs. And that's a Q1 phenomenon.

John Lovallo
Analyst, UBS Securities LLC

Q

Got it. Thanks very much.

Operator: Your next question comes from Matthew Bouley with Barclays. Your line is now open.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Good morning, everyone. Thank you for taking the questions. And of course, congratulations to Keith and best wishes on retirement. So, on the 2026, the idea that you'd be able to mitigate most of it by the end of next year. I guess, first, if you could just clarify, was that mitigating the entire $675 million or just the $400 million of in-year costs? So, just a clarification there. But more broadly next year, is it a similar playbook of kind of pricing first, followed by cost and sourcing? So, you would need to take additional price or in 2026, does it perhaps more come from sourcing as you've kind of shifted that over the next several months? Thank you.

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

A

Yeah. Sure, Matt. It's Rick. So, as it pertains to the mitigation actions as we articulated this year in-year, we would anticipate that our actions would mitigate about 50% to 65% of the in-year $400 million impact. But by the end of the year, by the end of 2025, we would expect that run rate mitigation to be closer to 60% to 75% as pricing and other cost actions take hold. To answer your specific question, as it pertains to 2026, our actions are targeting to mitigate the remainder of the annualized impact of $675 million by the end of 2026.

Now, as a caveat, that is really the raw numbers. We aren't factoring in or anticipating or guiding towards an expectation of what the volume impacts could be, the direct or indirect. But, as it pertains to our mitigation actions, we are targeting to mitigate the full $675 million by the end of 2026.

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

A

And then, in terms of the proportion of the mitigation efforts in 2026, we would anticipate that to lean more heavily into sourcing footprint changes more so than price or cost, but of course we will continue to drive costs. And there will be targeted pricing actions across the assortment, undoubtedly. But the majority of that would come in 2026 from resourcing footprint.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Yeah. Got it. Okay. Perfect. Thank you for that color. And then, secondly, obviously you guys took down the slide around the kind of 2026 margin targets, which is seems entirely unsurprising if 2025 is a starting point is unclear. But just to ask the question and put it out there, do you view any kind of change to the structural profitability potential of the business or is it just simply the former where there's too much uncertainty? And this is more of a timing issue? Thank you.

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

A

We had strong margin performance in 2024. Our pipeline looks – of cost initiatives is very solid, very confident in the margin targets that we set out in 2026. So, for us, it's not so much a question of if we can drive to those, it's when. And looking at the uncertainty that we're facing now, that's why we've pulled our financial guidance. But, we're confident and the ability of this business continue to drive improved margin performance.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks, Keith. Good luck, guys.

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

A

Thank you.

Operator: Your next question comes from Mike Dahl with RBC. Your line is now open.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Keith, heck of a career. Congrats and congrats on being able to step away and enjoy the next phase. I wanted to drill down on the actual numbers around the tariffs. It seems like the majority of your exposure that you're outlining is coming from China. But, you do have exposures in Vietnam and Southeast Asia and in Mexico. So, maybe could you give us a little more clarity on your cost of goods exposure to those areas? Just since the tariff environment is uncertain where we ultimately land and with Mexico specifically, how much of your product being shipped to the US is currently exempt under USMCA?

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

A

Sure, Mike. It's Rick. As you articulated and as we've outlined, our biggest exposure from a tariff perspective is our imports from China, as evidenced by the fact that the current annualized impact, based off of the currently enacted tariffs, $625 million of the $675 million relates to China. I think that is evidence of the disproportionate exposure to China. In terms of our other exposures, we're not going to quantify them, certainly not at this point. I think, in terms of dimensionality, as we did share that in terms of the other tariffs that were enacted on steel and aluminum and the 10% reciprocal tariffs that amounted or totaled to a $50 million annualized impact. So, that puts it into perspective, I believe.

As it pertains to Mexico and Canada, we've articulated this on a prior call. We do have a meaningful exposure from a Mexico import perspective, principally related to our Watkins Wellness business, because we have a couple of facilities in Mexico that import into the US. And so, that's something that we're tracking very closely.

Canada isn't as meaningful, but something that we're monitoring closely. And to answer your last question, in terms of USMCA exemption, the vast majority of our products qualify for USMCA exemption.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks, Rick. That's helpful. My follow-up question is, just as a point of clarification, I think your prior guidance just assume the 10% tariffs on China and that you would effectively fully mitigate those. So, when we're thinking about building the year, is it really just like this entire amount that you're outlining is effectively incremental. So, the $150 million to $200 million of costs that you can't offset in year. That is entirely incremental plus whatever the volume decremental is. Is that right?

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

A

Yeah. Mike, your recollection is correct. When we provided our guidance on our February call, the 10% China tariff was in effect and what was baked into our guidance at that time. So, incremental to that has been 135%, so 145% minus 10%. In terms of incremental China tariffs, the 25% steel and aluminum tariffs and the 10% global reciprocal tariffs are all what I would consider incremental to what we had contemplated and had known quite frankly on our February call.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Operator: There are no further questions at this time. I will now turn the call over to Robin for closing remarks.

Robin L. Zondervan
Vice President, Investor Relations and FP&A, Masco Corp.

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

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.