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# HNI Corp. (HNI)

Q4 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Matthew McCall**

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

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## OTHER PARTICIPANTS

**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

**Greg J. Burns**

*Analyst, Sidoti & Co. LLC*

**Steven M. Ramsey**

*Analyst, Thompson Research Group LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to the HNI Corporation Fourth Quarter and Fiscal Year 2020 Conference Call. All lines have been placed on-mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Mr. McCall, you may begin your conference.

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**Matthew McCall**

*Vice President-Investor Relations & Corporate Development, HNI Corp.*

Good morning. My name is Matt McCall. I am Vice President Investor Relations and Corporate Development for HNI Corporation. Thank you for joining us to discuss our fourth quarter fiscal 2020 results. With me today are Jeff Lorenger, Chairman, President and CEO; and Marshall Bridges, Senior Vice President and CFO.

Copies of our financial news release, earnings presentation, and non-GAAP reconciliations are posted on our website. Statements made during this call that are not strictly historical facts are forward-looking statements, which are subject to known and unknown risk. Actual results could differ materially. The earnings presentation posted on our website includes additional factors that could affect actual results. The corporation assumes no obligation to update any forward -looking statements made during the call.

Now, I'm pleased to turn the call over to Jeff Lorenger. Jeff?

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**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

Thanks, Matt. Good morning and thank you for joining us. Our members finished the challenging year by delivering another solid quarter. This past year, our members adapted, stayed agile and kept the corporation

strong in the face of challenging conditions as they continue to demonstrate what is unique about HNI. A great example of our strong 2020 performance was our cash flow generation. For the full year, we delivered \$173 million of free cash flow, which was up \$20 million, or 13% from 2019. As a result, while our debt levels at the end of Q4 were unchanged year-over-year, we were able to fund \$58 million of acquisitions, grow our cash balance to \$64 million, and paid \$52 million in dividends in 2020.

I would like to point out that we have never cut our dividend. HNI have continuously paid a quarterly dividend since 1955, and we maintained it last year. We accomplished all of this while funding key investments and despite consistent topline pressure in our Workplace Furnishings segment through the final three quarters of the year.

As we look forward, I am optimistic about our enhanced competitive positions and ability to drive profit growth. We have two differentiated business segments well-positioned to benefit from a recovery of the cycle, secular trends, and HNI-specific growth drivers. We have diversified revenue streams and clear opportunities to drive revenue growth and shareholder value.

I would like to talk specifically about our Residential Building Products segment for a moment. We are the market leader in fireplace and hearth products. We generate operating margins in the high teens, and we are capturing strong growth in both the new construction and remodeling markets. While those markets have strong fundamentals, we have the opportunity to drive even greater growth by better connecting with homeowners and homebuyers in this traditionally under-marketed industry. We have a truly unique vertically integrated business with unique opportunities to grow.

We also have outstanding opportunities in Workplace Furnishings. We are well-positioned for a wide range of market scenarios given our price point breadth, product depth, e-commerce access, and range of fulfillment capabilities. We will benefit from trends related to work from home, de-densification and de-urbanization. And we have the opportunity to capture on our positioning and leverage our operational excellence heritage to expand margins in the Workplace Furnishings segment.

I will now cover some key highlights of the fourth quarter. Marshall will then provide some color around our first quarter outlook. I will then conclude with some commentary on our ESG efforts. Finally, we will open up the call to your questions. I will start with three key highlights from the fourth quarter. First, our Residential Building Products segment delivered double-digit revenue and profit growth. We generated 18% year-over-year revenue growth in the fourth quarter, or 16% excluding the impact of acquisitions. We also delivered 11% fourth quarter operating profit growth on a year-over-year basis, with full year EBIT growth in this segment of 16%.

Remodel/retrofit sales, which have been strong since the middle of 2020, were up 15% year-over-year in the fourth quarter. We continue to compete well and take advantage of strong ongoing activity in this market. New construction sales accelerated in the fourth quarter and were up 17% on an organic basis. Our value propositions and supply chain strength are resonating with home buyers and builders. As a result of the accelerating new construction activity, our fourth quarter growth rates were higher than we experienced in the third quarter. We expect our strong results to continue. Orders grew at a high-teens rate in the fourth quarter and further strengthened in December and January.

Our unique model in this business continues to provide a strong platform for growth. Over the years, we have built a strong Residential Building Products business by focusing on operational excellence and by delivering superior service with our regional distribution centers and a vertically integrated structure. This has allowed us to capture strong demand and grow profits by over \$100 million in the last decade. However, as I mentioned earlier, we see even more opportunity to drive growth. In new construction, two-thirds of homebuyers see having a fireplace is a

must-have feature on a home, but less than 40% buy one. On the remodel/retrofit side, we estimate that less than 3% of all remodeling projects involve a fireplace.

To take advantage of these opportunities, we are driving a better connection with the homebuyer and homeowner. And we are working hard to better understand and influence their home purchase or remodeling journey. Some early highlights of this effort include: we are investing in enhanced [ph] direct in (00:06:42) digital marketing. As an example, one small promotion around fireplace inserts created over 8,000 leads, nearly a quarter of which were converted to orders. Our social media efforts are offering fresh content and driving large numbers of new visitors to our websites.

We are also partnering with social influencers and targeted media to drive overall awareness and demand. These efforts have already driven hundreds of thousands of impressions and thousands of engagements. Finally, we are launching visualization tools including mobile-enabled augmented reality applications to help the consumer imagine their possibilities and make decisions. By combining these new efforts with our unique model, we are competing better than ever in this space. We continue to drive strong financial returns with fourth quarter operating margins of 22.5% and full-year operating margins of 18.5%.

Our second highlight for the quarter was our solid profitability in our Workplace Furnishings segment despite continued revenue pressure. Customer demand remains subdued and segment revenue declined 19% year-over-year. However, segment non-GAAP operating profit still exceeded \$11 million in the fourth quarter. And we were able to deliver full-year 2020 non-GAAP EBIT of approximately \$40 million.

Orders in Workplace Furnishings improved as we progressed through the fourth quarter. Segment orders excluding e-commerce declined 25% versus the comparable prior-year period. However, December and January order patterns improved from those in October and November. The order rates in our businesses that are focused on small to mid-sized offices are particularly encouraging, and are a result of our agility and competitive position and improving demand trends in that portion of the market. Orders from larger contract customers continued to be slow. And although there are initial signs of increasing preorder activity, these customers are still generally in a holding pattern.

We expect slower order activity with contract customers until there is more clarity around the office reentry timeline. This timing is uncertain, but most conversations we are having indicate reentry ramping up sometime in the late spring to the late summer timeframe.

Orders in our Workplace Furnishings eCommerce business increased 37% versus the comparable prior-year period. We achieved 37% revenue growth notwithstanding ongoing supplies constraints and difficult prior-year comparisons. We do expect to see continued strong growth in the first quarter of 2021. Our differentiation in our Workplace Furnishings business model positions us well to compete as the market recovers. Our Workplace Furnishings businesses have unmatched price point breadth, channel access, and market reach. The addition of Design Public helps further our breadth and reach advantages. These differentiators position us well to benefit from the work-from-home and de-urbanization trends. And given our unique competitive position in the small to mid-sized market, along with our exposure to e-commerce and certain international markets, we have the potential to outperform the market again in 2021.

In our eCommerce business specifically, the momentum in our video gaming business is deserving of a callout. We continue to drive growth greatly above market rates with our line of RESPAWN branded ergonomic gaming chairs. These products, which are available at reasonable price points and offer superior comfort, are expected to continue to fuel our eCommerce business in 2021 and beyond.

Our third highlight of the quarter was the acquisition of Design Public Group. In late December, we closed the acquisition of DPG. We are excited to add this digitally native organization to our portfolio. The skills and capabilities the team at Design Public bring will help accelerate many of our ongoing strategic initiatives. Specifically, Design Public provides access to a customer set we previously didn't reach. Approximately, 50% of DPG's revenue comes from individual consumers. And like most companies tied to residential activity, this part of DPG's business was very strong in 2020. The strength has continued into 2021, with January orders up triple digits over January 2020 levels.

The other half of DPG's revenue comes from commercial customers through contract furniture dealers. With approximately 500,000 SKUs available through the DPG dealer portal, we can provide efficient access to products that were previously often difficult to find and acquire. And unlike an acquisition of a single-niche manufacturer, DPG gives us a dynamic platform to rapidly adjust to shifting fashion trends. Finally, Design Public adds another work-from-home platform for HNI. This is a great business with tools that make HNI stronger right now.

I will now turn the call over to Marshall to provide some additional detail around our fourth quarter and our outlook. Marshall?

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## Marshall H. Bridges

*Senior Vice President & Chief Financial Officer, HNI Corp.*

Okay. Let's begin our first quarter outlook for the residential – let's begin with our first quarter outlook for the Residential Building Products segment. For the first quarter, we expect year-over-year revenue growth rates in the mid-20% range. We continue to see strong market momentum. And as Jeff previously covered, we are positioned for sustained growth in this segment.

Now, let's shift to our outlook for Workplace Furnishings. Let me first say that pandemic-related uncertainty continues to limit our visibility in this segment. That said, we are currently seeing continued moderation in year-over-year revenue declines. This improvement is primarily being driven by our businesses focused on small to mid-sized offices. These trends indicate Workplace Furnishings revenue will decline at a year-over-year rate in the high-single digits to low-teens during the first quarter. That range includes the impact from the Design Public acquisition, which will add an estimated 2.5 percentage points to our first quarter growth rate for this segment.

Let's move on to first quarter profitability. There are multiple moving parts to the first quarter profitability story. Overall, we expect to be profitable. But our current view is profit will be below the prior year pre-pandemic levels. On the positive side, we expect the first quarter to benefit from higher volume in Residential Building Products, broad based cost savings put in place last year and our typical annual productivity gains. However, we expect lower Workplace Furnishings volume and rising input costs will more than offset these positives.

Regarding input costs, recently, we've seen rapid increases from steel ocean freight and outbound freight. And generally, we expect a more challenging inflationary environment this year. We have implemented pricing actions and identified cost initiatives to offset these pressures over time, but expect unfavorable price/costs in the first quarter.

Finally, some comments on our cash flow and balance sheet expectations. We ended the fourth quarter with \$175 million of total debt, which was unchanged from last quarter and prior-year levels. Our cash balance was \$116 million, which represents an increase of \$64 million from the end of fiscal 2019. We expect to maintain a strong balance sheet throughout 2021, with leverage ratios in line with those seen in recent quarters. We also expect to

continue generating strong free cash flow, which will provide ample capacity for continued investment, dividend payments, and opportunistic M&A and buyback activity.

I'll now turn the call back over to Jeff.

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## Jeffrey D. Lorenger

*Chairman, President & Chief Executive Officer, HNI Corp.*

Thanks, Marshall. Before we take your questions, I want to provide some highlights on our ESG actions, many of which have been ongoing for multiple years. In 2018, we published our initial corporate social responsibility report, which introduced our ESG goals. Since then, we have achieved our 10% energy reduction goal, began sourcing 100% renewable electricity, which reduced our Scope 1 greenhouse gas emissions by over 35%, and we diverted over 90% of waste away from landfills at two of our facilities. We also became a signatory to the UN Global Compact and joined RE100. We set aggressive science-based carbon emission reduction goals aligned with the 2015 Paris Agreement. And annually, we donate 1% of our pre-tax profit to improve the quality of life in the communities in which we operate.

Additionally, in 2019, I signed the CEO Action for Diversity and Inclusion pledge, and we strengthened our initiatives to ensure HNI is a welcoming community for everyone, where we celebrate our members' unique characteristics and talents. In each of the last three years, we have been recognized by Women On Boards and by the Women's Forum of New York for the diversity of our board of directors, which is 50% female. We continue to ramp up our ESG initiatives and activities and expand our sustainability commitments. Later this spring, we are planning to issue an update to our CSR report, which will include aggressive new targets along with recapping our recent accomplishments across a number of ESG areas.

I would like to conclude by stating I'm extremely proud of and grateful for the efforts of all HNI members. As we look to 2021 and beyond, I have no doubt we'll be a stronger company because of what we experienced and how we performed this past year. We have two differentiated business segments, each well positioned to benefit from a recovery of the cycle, secular trends and HNI-specific drivers. We are well positioned to grow revenue, expand margins and generate cash over the long term.

We will now open up the call to your questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from Reuben Garner with The Benchmark Company. Your line is open.

**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Maybe we can start with the Building Products segment. I want to hit on the growth rate a little bit more. I don't think there's been many building product categories to put up that level of growth in either the fourth quarter or in your outlook for the first quarter. Can you just talk about what you guys are seeing? Is it exposure to certain faster-growing markets? Is there – are your investments already paying off to accelerate growth in the hearth business?

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Yeah, Reuben. I think it's a combination. I'd start with the cycle is encouraging. We're continuing to – the demographics, well noted. Millennials are home-buying. Inventory is low, rates are low. Consumer net worth is pretty strong. So we're benefiting there. The secular trends are supporting the nesting de-urbanization. So our model has been very efficient and effective at capturing that business.

And then yes, we're starting to see initial responses to some of our investments. As I said, we're getting more in touch with home buyers and homeowners as they consider new home purchases and/or remodel. And so that's point one. For instance, in new construction markets, as I said, 66% of homeowners say they want a fireplace, yet only 40% have them. And in the remodel area, we estimate there are 30 million older gas stoves out there that need to be upgraded. And we know where many of those units are.

So we've started our inserts selling model, has started a year ago. We've now got that deployed in 60 dealer showrooms and insert sales are running well above our normal [ph] R&R (00:19:22) rates. That's a for instance. So I think it's kind of across the board and we think there's a lot of headroom there still.

**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Great. And then as a follow-up, we've noticed Google trends for fireplaces has kind of gone through the roof here in recent weeks and months I think at record levels. Can you – I guess a two-part question. One, when we – in the past when we've seen waves of cold weather and energy costs rising, it's been a benefit to a part of your business. Are you guys already kind of seeing that?

And I guess secondarily, a lot of the growth that's been in the new construction area has been in the south, Florida, Texas, Arizona markets like that, or does the recent kind of weather events I guess provide – I hate to say opportunity with everything going on down there, but a chance for you guys to maybe penetrate some markets that maybe otherwise wouldn't have been at the top of the list for a fireplace?

**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Yeah. Sure, Reuben. The weather is certainly helpful. But the product category you're alluding to that really responds well to cold weather is actually not growing as fast as the other product lines right now. So, I'm sure the weather has triggered people to think about a fireplace. But it's not the thing that we've seen five, six years ago [ph] where it really ran (00:20:44) because of the cold and the high energy prices.

In regard to opportunities in warmer geographies, I think there are opportunities there. I'm not sure we're seeing a lot of benefit from it right now. I think it's more upside as we move forward. People just really digesting these recent cold events and maybe reconsidering other options for their house.

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**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Great. Thanks, Marshall. And then, shifting over to the Workplace business, certainly bouncing back I think quicker than we had anticipated. Can you kind of parse out the small business? You mentioned the smaller customer or smaller office, is it looking with – I guess from a geographical perspective, are you guys benefiting from your presence in some of the smaller markets already or is it truly just the smaller office maybe bringing people back, it's a little easier to get a small office reopen than it is to have a Google headquarters return to normal?

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**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Yeah. I think some of both. I think our positioning within the channel and in some of the markets we're in, we're definitely benefiting. I think smaller businesses are more active. Small, medium businesses are more active. The de-urbanization trends are starting to kick in. We're getting some interest in satellite offices, that kind of thing. It's still early, but it's exposure, it's dealer network, it's channel and it's – I think it is ease of opening to some extent as well. It's easier than the major urban centers for sure.

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Yeah, Reuben. That business has a different set of customers in general. It's got a little more education, a little more public sector exposure, and we're seeing some strength in those areas as well.

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**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Perfect. And then if I could sneak one more in, the Design Public Group acquisition, pretty interesting. It seems like it can help you guys across a number of different sort of categories that you're looking for. Can you – any way to quantify what their businesses today and maybe what targets are as you look out into the next few years?

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Yeah. I mean, for the year, Reuben, we're expecting it to add about \$36 million to \$38 million of revenue. So that's kind of how big it is. It's on a pretty high growth trajectory. So we expect it to be larger as we move forward in other years.

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**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Great. I'll pass it along. Thanks, guys, and congrats on the end of the year and start of 2021.

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Thank you.

**Operator:** Our next question is from Stephen Ramsey with Thompson Research. Your line is open.

**Steven M. Ramsey**

*Analyst, Thompson Research Group LLC*

Q

Hey. Good morning. Maybe I'll start with the Resi segment supply chain challenges, or supply chain challenges slowing down the time from orders being placed to orders being fulfilled. Maybe what are you doing to manage or mitigate this dynamic? And as a timeframe, is there any projected timeframe of the issues alleviating maybe in the next couple of quarters or beyond that?

**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Yes, Steven, in general, we're holding our own in the Residential Building Products segment in terms of – demand is certainly very strong, the supply chains are stressed a bit, but we're not seeing any major disruptions there. We're basically able to keep up with it. Particularly in the new construction side, it's basically – lead times are pretty normal. We've seen a few products in the remodel/retrofit side maybe get a little bit longer, but still better than our competition. So, we're doing pretty well there. It is not a major issue.

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Yeah. I would just – I would tag on to that, Marshall, that our operating model with the [ph] RDCs (00:24:41) and the way we operate, I mean we definitely have been busy, but we have not – builders, new construction, they're waiting on other categories, not on our stuff. We've been able to capture that demand without a lot of stress at this point.

**Steven M. Ramsey**

*Analyst, Thompson Research Group LLC*

Q

Excellent. Okay. And then on Resi, investment spending up to take advantages of, kind of, an arbitrage of intention to purchase and actual purchasing, maybe is it a meaningful dollar increase in 2021 to continue to capture that opportunity? And then secondly, investment for M&A as you continue to acquire dealers, is that still – I know it's still a focus, is that likely to turn into meaningful investments in 2021?

**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

On the operating expense side, Steven, we are continuing to invest and ramp up investments, especially in the Residential Building Products segment. We would expect to add \$68 million of investment to the P&L this year. So it's about double what we had last year in these efforts to connect with the home buyer and the homeowner.

In terms of M&A, we're always looking for opportunities. I think our actions in 2020 speak to where we're going that we acquired three smaller distributors and we continually on the lookout for other ways to create value. But that's kind of the thing we'd be looking for.

**Steven M. Ramsey**

*Analyst, Thompson Research Group LLC*

Q

Okay. Great. And then taking on Workplace eCommerce demand, is work-from-home still the main driver of eCommerce demand? Do you expect that to still be the case as things play out or do you think more contract-type office demand will support the eCommerce channel in a more meaningful way going forward?

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Yeah. I think that work-from-home is clearly still I think in the early innings. What I would tell you up to this point though, we've got a pretty large position in the gaming segment. So [ph] called out – I don't know if (00:27:05) it's work-from-home. It's from home, a lot of it. But it's not probably work-from-home although maybe it will turn into that.

So I think that we're well positioned there. We've got price point breadth. We've got product depth, and we've got distribution reach and operating model reach. So we are in that business. And we were – our eCommerce was strong before pre-pandemic and has accelerated post-pandemic.

**Steven M. Ramsey**

*Analyst, Thompson Research Group LLC*

Q

Great. That does it for me. Thanks.

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Thanks.

**Operator:** Our next question is from Greg Burns with Sidoti. Your line is open.

**Greg J. Burns**

*Analyst, Sidoti & Co. LLC*

Q

Good morning. Can you just...

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Good morning.

**Greg J. Burns**

*Analyst, Sidoti & Co. LLC*

Q

...highlight or touch upon anything that you're seeing that gives you the optimism or confidence in that kind of broader reopening of the workplace as we get to the middle part, the second half of this year?

**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Yeah, Greg, that's – we are seeing some uptick in activity, I would say. The bid, the RFP requests, the conversations are starting to ramp up. I mean, it's early for sure. But that gives us – if you go back three months, even four months ago, the levels are higher than they were. And so we think that it's real and people are – have

been thinking about it and are starting to seriously engage in processes to re-enter. And anytime there's a reentry point changes, that's a furniture event. And it's all over the map. I would tell you the conversations we're having. It's pretty clear that one – we're going to avoid the one size fits all approach. I think every business enterprise is different. It's going to depend on their culture and how they create value for all their stakeholders, etcetera. But it's no doubt going to lead to a variety of outcomes for the office, all of which are we're well-positioned for and those are furniture events. So that's good.

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**Greg J. Burns**

*Analyst, Sidoti & Co. LLC*

Q

Okay. And obviously a lot of moving pieces on the cost side of the equation. How much avoided costs do you expect to come back in the P&L in 2021? And maybe just you gave nice a guidepost for the first quarter. But if we think about the full year, how should we think about [ph] rental (00:29:50) margins or the potential for margin improvement in 2021?

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Yeah. Greg, last year in 2020, we reduced our costs by approximately \$90 million. And of that \$90 million, about \$18 million of it had to do temporary measures. Salary reductions and furloughs were the main contributors there. So that \$18 million will come back. But there's multiple moving parts. That's not the only sort of cost or positive that will hit the P&L in 2021. So we're going to add to our productivity – we had a very strong productivity year in 2020. We expect another good year in 2021. We also have some other cost normalization around variable comp and insurance costs. And so, all of that's going to net together to be roughly neutral at this point. Of course, we have the rising input costs to deal with. So it's kind of hard to say how that plays out. But the \$18 million doesn't flow through directly, but it goes into other multiple moving parts.

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**Greg J. Burns**

*Analyst, Sidoti & Co. LLC*

Q

Okay. All right. Thanks. And then what is the split of revenue in the Residential Building Products between new construction and residential remodel?

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

It's approximately evenly split between the two.

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**Greg J. Burns**

*Analyst, Sidoti & Co. LLC*

Q

Okay. All right. Thank you.

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**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

A

Thanks.

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**Operator:** Our next question is from Reuben Garner with The Benchmark Company. Your line is open.

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**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Thanks, guys. Just a couple quick follow-ups. Marshall, you mentioned price/cost would maybe be a drag in the first quarter. Can you quantify that? And then, do your pricing actions and your cost initiatives, assuming the current levels of inflation kind of persisted, do they get you back to neutral starting in the second quarter or is that more of a – it'll progress through the year kind of thing?

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Yeah, Reuben. We've seen these rapid increases, especially steel [ph] feels basically doubled (00:32:05) what it was last August, actually more than that. So, we're going to see some negative price/cost in the first quarter. And by the second half, our pricing actions and our cost initiatives will be in place, so it will be roughly neutral on a price/cost basis. But we do expect some headwind in the first quarter and a little bit less on the second quarter.

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**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Okay. And then, a follow-up to Greg's full year incremental margin or margin outlook, so a lot of those puts and takes come out to the neutral. Does that mean whatever kind of volume growth we think that the business is going to have, we would apply kind of normal contribution margins, maybe less the price/cost pressures that you have in the first part of the year?

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**Marshall H. Bridges**

*Senior Vice President & Chief Financial Officer, HNI Corp.*

A

Reuben, that's a reasonable assumption. I would point out to you that over the long-term, our goal is to expand margins of Workplace Furnishings. And depending on the volume situation that will hopefully begin in 2021 – in Residential Building Products, our goal is so much to expand margin there. We talked about the investment levels and the growth opportunities we have. And our goal there is to really drive the topline and hold the margins, the very strong margins that we have.

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**Reuben Garner**

*Analyst, The Benchmark Co. LLC*

Q

Yes. Got it. Thank you, Marshall. Appreciate it.

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**Operator:** And there are no further questions at this time. Mr. Lorenger, I will turn the call back over to you.

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**Jeffrey D. Lorenger**

*Chairman, President & Chief Executive Officer, HNI Corp.*

Thank you. Thanks, everybody, for joining us today. Have a great day and a great week. See you next time.

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**Operator:** This concludes today's conference call. You may now disconnect.

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