

S&P Global
Market Intelligence

HNI Corporation NYSE:HNI

Earnings Call

Thursday, February 20, 2025 4:00 PM GMT

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Call Participants

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Steven Ramsey

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Presentation

Operator

Good morning, and welcome to HNI Corporation Fourth Quarter and Year-End Fiscal 2024 Results Conference Call. [Operator Instructions]

As a reminder, today's call is being recorded. I will now hand today's call over to Matt McCall. Please go ahead, sir.

Matthew Schon McCall

Vice President of Investor Relations & Corporate Development

Good morning. My name is Matt McCall. I'm Vice President, Investor Relations and Corporate Development for HNI Corporation. Thank you for joining us to discuss our fourth quarter and fiscal year 2024 results. With me today are Jeff Lorenger, Chairman, President and CEO; and VP. Berger, Executive Vice President and CFO. Copies of our financial news release 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 risks, actual results could differ materially.

The financial news release 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 this call. I'm now pleased to turn the call over to Jeff Lorenger. Jeff?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Thanks, Matt. Good morning, and thank you for joining us. I'm going to divide my commentary today into 3 sections. First, I will provide some comments on our fourth quarter and full year results. 2024 non-GAAP EPS grew at a double-digit pace for the third consecutive year. Next, I will discuss our initial expectations for 2025. We anticipate a fourth consecutive year of double-digit non-GAAP earnings improvement. And finally, I'll discuss how we see our markets playing out over the course of the year and provide additional detail about our EPS growth visibility.

Following those highlights, VP will provide more detail around our first quarter and full year 2025 outlook, including some thoughts on our ability to offset the impact of new tariffs. He will also comment on our strong balance sheet. I will conclude with some general closing comments before we open the call to your questions.

I will start with the fourth quarter and full year. In the fourth quarter, non-GAAP EPS was \$0.87. This result was better than we anticipated, while revenue did moderate, as expected, our members' continued focus on productivity drove more financial benefit than we had forecasted and limited the decremental margin to only 17% for the quarter. As the year ended, workplace furnishings experienced softness with small- and medium-sized customers. The transactional business within SMB where products are sold through wholesalers and national supply dealers, was particularly soft throughout the fourth quarter.

As we discussed last quarter, this business had a short selling cycle, typically involve smaller item purchases and historically has been highly sensitive to macroeconomic changes. As a result, revenue trends can be volatile and shift rather quickly. In our Contract Furniture business, fourth quarter revenue was down slightly versus the prior year as the timing of larger projects temporarily limited segment growth in the fourth quarter. Finally, in Residential Building products, fourth quarter revenue declined 5% year-over-year as housing market weakness persisted.

Moving to some commentary on the full year. Our members delivered another year of excellent operational and financial performance. Non-GAAP EPS totaled \$3.06, up 15% from 2023 levels reaching a new record high for the full year. Importantly, we delivered these results despite our markets remaining near cyclical low points. Consolidated operating margin in 2024 expanded 130 basis points on a non-GAAP basis to 8.6%, the highest level since 2005.

This strong performance was driven by Workplace Furnishings profit transformation initiatives, KII synergy capture and successful price cost strategies. From a segment perspective, in 2024, in Workplace Furnishings, our profit transformation plan and acceleration of KII synergies drove a 44% increase in non-GAAP operating profit, while segment non-GAAP operating margin of 9.5% reached the highest level since 2007. In Residential Building Products, ongoing housing market weakness pushed revenue lower for the year. However, segment operating profit margin expanded 50 basis points to 17.5% in 2024.

The consistent profit margins in this segment are evidence of the business' unmatched price point breadth and channel reach along with the benefits of its vertically integrated business model and overall operational agility. To summarize 2024, our profit growth in Workplace Furnishings and margin expansion in Residential Building products continue to demonstrate the strength of our strategies and customer-first business model, along with the resilience of our members.

During the year, we again demonstrated our ability to manage through all parts of the economic cycle. Going forward, we expect continued earnings improvement, driven by our margin expansion efforts and a return of revenue growth as we move through the year. However, as we enter the new year, we do see demand volatility across our businesses. That leads to my comments about our current expectations for 2025.

First, in our Workplace Furnishings business, our internal metrics and external indicators support our outlook for revenue improvement, and we are increasingly focusing our investments on driving growth in this segment. However, tariff uncertainty and rising inflation expectations provide reasons to expect ongoing volatility. Internally, orders and preorder metrics continue to show improvement and backlog levels are up, pointing to a return of revenue growth in 2025.

Segment orders in the fourth quarter were up 2% compared to the prior year period. Consistent with recent revenue trends, fourth quarter orders from contract customers performed better than those from small- to medium-sized customers. Overall workplace backlog was also up double digits year-over-year at the end of 2024. And preorder metrics remain encouraging with our order funnel and workplace furnishings up at a mid- to high single-digit pace year-over-year.

Our internal metrics are consistent with what we are seeing in various external metrics that typically drive industry demand. For example, office sublease activity and office space absorption are heading in the right direction. Both are leading indicators for office furniture demand and are providing additional reasons for encouragement. We are also continuing to see return to office momentum build as well. So as you look out into 2025, we have signals that are encouraging and support our view of a return to revenue growth. While at the same time, we are increasingly focusing our investments on driving revenue growth in this segment.

Moving to Residential Building Products. Our current view is that any real housing recovery continues to push out and our revenue outlook points to the majority of segment growth occurring late in the year as year-over-year comparisons ease and our growth initiatives gain traction. As is well documented, the dynamics in the housing market remain difficult. After bottoming at 39 in August, the housing market index reached 47 in January, while this is a solid improvement, the January reading remains below the 10-year average of 62. Builder sentiment continues to reflect the impact of elevated interest rates and ongoing affordability issues.

Despite these headwinds, we believe in the long-term opportunities tied to the broader housing market, in the strength of our market-leading positions and profitable operating model, and we continue to invest accordingly. I will finish by making a few comments about our markets and provide additional detail around our elevated 2025 EPS growth visibility. As is evident from our commentary, it is -- and in the release and on the call, we are increasingly focused on driving revenue growth in both businesses. However, we do expect the year to start off a bit slow with revenue declines in the first quarter. In Workplace, the first quarter revenue softness is being driven by the transactional portion of SMB and large project timing within the hospitality business.

Overall, SMB activity lag in the final quarter of 2024, I'll remind you, prior to the second half of 2024, SMB was an area of strength for us with consistent order growth over the previous 2 years, and we remain

bullish about the fundamental backdrop. A look at 2025, our strength in the SMB space and our broad price point breadth continue to be competitive differentiators, especially as more cost-conscious customers embrace price mixing across projects, increasingly mingling SMB products into contract settings.

In our Contract business, we see growth on the horizon. Contract orders were up 4% on a year-over-year basis in the fourth quarter. We continue to see encouraging signs within larger projects, and we saw order outperformance from the workplace and health end markets during the last quarter of 2024. In addition, education order patterns improved as 2024 progressed and education order backlog is up double digits to start 2025. We are still experiencing longer selling to order time frames which makes it a bit more challenging to predict revenue timing. So while underlying demand drivers are encouraging in the contract space, the level of macro uncertainty, including the ultimate impact of tariffs will affect how demand plays out.

Looking ahead, we believe we are particularly well positioned to benefit as the workplace furnishings market continues to improve. We have a portfolio of brands with unmatched product and breadth and pricing breadth and depth allowing us to meet any future need a customer has. We have products that work for customers ranging from small businesses to the largest multinationals. Our brands are distributed widely across geographies from tertiary markets to the top MSAs, and we can broadly meet the needs of workplaces, schools, health care facilities and hotels.

Moving to Residential Building products. We continue to believe in the positive long-term market fundamentals. The near term remains dynamic, and we expect the market-driven revenue recovery take some time given the current housing environment. We are, however, optimistic about our opportunities to increase revenue through our growth initiatives. Specifically, we continue to develop market-leading new products and provide customers with more options and features. We are driving new programs to increase consumer awareness of the fireplace options ensuring our products are considered in all remodel and new construction projects, and we are strengthening our already strong relationships with builders across the country, helping them deliver the best overall value to the homeowner.

While we invest in growth, we will continue to deliver high-margin results and strong profits in this business. Longer term, single-family housing remains undersupplied, and demographics will support additional demand growth. The results of our ongoing investments, which enhance our connection to customers and build on our leading brands, will fortify our position of strength in the industry. Finally and importantly, we have elevated earnings visibility this year and next. While our earnings expectation for 2025 does include revenue improvement.

We continue to have high visibility to significant profit growth driven by operational improvements. And as we have discussed, we have 2 initiatives underway. Mexico and KII synergies that will drive a total of \$0.70 to \$0.80 of EPS growth through 2026. That represents approximately 25% EPS growth on top of our 2024 earnings with the savings expected to be divided roughly equally over the next 2 years. In addition, we continue to manage our cost structure in residential building products to align with the demand environment.

Early in the fourth quarter of 2024, we took actions to lower our cost structure by approximately \$5 million in this business. Most of that benefit will be recognized in 2025, further adding to our overall profit visibility. So without help from the cycle, we expect our double-digit earnings growth to extend to at least 5 years. I will now turn the call over to VP to discuss our outlook for 2025. VP?

Vincent Paul Berger

CFO, Executive VP and President of Hearth & Home Technologies

Thanks, Jeff. I'll start by discussing our outlook for demand and profit. Beginning with demand, as Jeff commented, first quarter revenue in Workplace Furnishings is expected to decrease to a low to mid-single-digit rate year-over-year. The benefits of improving orders, backlog and preorder metrics are expected to drive revenue growth beginning in the second quarter of 2025. For Residential Building products, the first quarter 2025 net sales are projected to increase at a mid-single-digit rate compared to the same period in 2024. We expect growth in both remodel retrofit and new home markets with remodel retrofit growing high single digits and the new construction up low single digits.

Recall our remodel, retrofit was artificially low last year as channel inventory was clearing. We will continue to closely monitor several key housing market drivers, including interest rates, home affordability, consumer confidence as the year progresses. Shifting to our first quarter profit outlook, what including the anticipated impact of tariffs, we are now expecting a non-GAAP earnings per share in the first quarter of 2025 to decrease slightly from 2024 levels. Based on our current tariff assumptions, there will be a temporary first quarter price cost drag as existing backlog shifts.

We estimate this 1 quarter drag to be approximately \$3 million to \$4 million. However, and importantly, we expect to recoup that drag over the remainder of 2025. Clearly, the tariff situation remains very dynamic. However, we have the flexibility to adjust and expect to be able to manage the estimated impact for the full year. Currently, we are accounting for the following: 25% tariffs for Mexico and Canada, 10% additional tariff for China and the announced steel and aluminum tariffs. We will continue to evaluate additional tariffs as they are announced.

Our mitigation plans include a combination of cost avoidance, supplier concessions, additional pricing actions and productivity initiatives. From a price perspective, our current plans are to utilize a surcharge approach which allows us to adjust quickly in the dynamic environment and reduce the impact on our customers when possible. Our plan is to fully offset any tariff-driven inflationary pressures similar that we demonstrated in 2018. In the first quarter, we expect operating margin in Workplace Furnishings to be down year-over-year as continued profit transformation efforts are more than offset by lower volume and tariffs.

Residential Building products operating margin is expected to expand on a year-over-year basis as we anticipate higher volume and positive price costs more than offset increased investments and tariffs. Excluding the temporary drag from tariffs, first quarter non-GAAP earnings per share are expected to increase modestly, driven by increasing productivity, partially offset by continued investments. Moving to the full year, we expect year-over-year revenue growth in the low to mid-single digits in both segments. In Workplace Furnishings, quarterly year-over-year revenue growth rates are expected to turn positive in the second quarter, and we expect them to improve each quarter as the year progresses.

In Residential Building Products, the majority of the year-over-year revenue growth is expected late in the year as comparisons ease and our growth initiatives gain momentum. On the bottom line, we expect another year of double-digit non-GAAP EPS growth driven by savings from our broader productivity efforts, including about half of the remaining savings from associated with our Kimball synergies and the Mexico facility. In addition, we expect increased profits from growth on a year-over-year basis.

I'll wrap up with a few comments on our balance sheet and cash flow. Despite 2024 top line pressure, we expanded margins, group profit, generated strong cash flow, reduce debt, return cash to shareholders and exited the year a stronger company. For the year, operating cash flow exceeded \$225 million and year-end gross debt leverage is at 1.1x as calculated in accordance with our debt agreements. The ratio was unchanged from the end of the third quarter of 2024. We deployed cash flow by further accelerating stock repurchase activity in the fourth quarter while maintaining our long-standing quarterly dividend.

For the year, we returned \$129 million to shareholders through stock buybacks and dividends. The combination of our strong balance sheet and consistent cash flow generation will continue to provide a high degree of financial flexibility and capacity for investment. Our capital priorities remain reinvesting in the business, paying dividends, pursuing share buybacks and exploring M&A opportunities. I'll now turn the call back over to Jeff.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Thanks, VP. As we look to our future, we are committed to driving revenue growth and delivering strong margins across our businesses. Despite ongoing macroeconomic uncertainty and anticipated demand volatility, we have elevated earnings capability through 2026 and are increasing our investments to drive growth. We delivered a third straight year of double-digit earnings growth in 2024 and we expect momentum to continue in 2025.

Beyond 2025, we are positioned for continued success. We have elevated earnings growth visibility through 2026, broad and diverse product and market coverage in workplace furnishings, market-leading positions in Residential Building products, and we feel now is the time to lean into additional investments to drive future growth. All this is supported by our strong balance sheet and the ability to drive continued free cash flow. I want to thank each HNI member for their continued dedication and congratulate them on delivering another year of excellent results. We will now open the call to your questions.

Question and Answer

Operator

[Operator Instructions] Your first question is from the line of Reuben Garner with Benchmark.

Reuben Garner

The Benchmark Company, LLC, Research Division

Thank you. Good morning, everybody. Maybe to start, in the last couple of years, the focus has definitely been on the margin front, savings and synergies. It sounds like growth in investments and growth is more of a focus now. I was wondering if you could dig in a little bit on what exactly you're investing in specifically on the workplace side and then why you kind of feel like now is the time to turn that on?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes, Reuben, good question. I think, first of all, let me start with we're still focused on margin expansion. That's still a headline news. But we're investing, we think now is the time we're investing in more selling capabilities. We're really focused on simplifying our customer experience and improving it. We're increasing our spending in product development. We are continuing to up our game in digital connectivity throughout the value chain.

And so we just feel it's a really good time to do that, and we're going to stay on it. Look, we see strength in some of our verticals that warrant more investment as well in the office, starting to show some growth in health care, education, hospitality, kind of -- so there's a lot of reasons for us to want to lean into the investment profile right now.

Reuben Garner

The Benchmark Company, LLC, Research Division

Okay. And then on the Residential Building products side, can you talk about the company-specific drivers that give you confidence in that growth target for this year and specifically the acceleration in the back half. I understand the inventory dynamic, but maybe VP, I think you referenced investments that you hope to drive accelerated growth in the back half. So if you could just talk about those as well.

Vincent Paul Berger

CFO, Executive VP and President of Hearth & Home Technologies

Sure. I think Reuben, the investments have started. They obviously will taper in as we get further in the back half. But it starts with our continuing to organize around the consumer, which is the business units. We introduced this 2 probably 3 years ago. And the closer we organize around the consumer, our efforts and benefits get more tactical and precise. So it starts with capabilities in selling and getting closer to the builder. We have a privileged position with our relationship with national accounts, our own distribution as well as our line distribution.

So we're adding, selling, I would say, capacity and capabilities in all those areas. And then we're going to continue to drive category awareness, consumers still need to know that fireplaces are an option, both on the retail side as well as on the new home side. And I'd say finally, our product pipeline, the breadth and depth of that across all brands and all categories are pretty strong. So all those investments are certainly incremental dollars that we're doing versus run rates, but we will continue to defend our margins while we invest.

Those should not be something to think that it's going to degrade the high-teen margins that we've been doing. We feel it's the time just like workplace to put the money in there to drive growth for not only this year but the future.

Reuben Garner

The Benchmark Company, LLC, Research Division

Great. Look forward to seeing next week. I'm going to sneak 1 more question in. The federal government. Can you remind us what your exposure is there and what the kind of early indications are? I know you've got a lot of moving pieces with potentially cuts, but also return to office mandate. So just an update on that would be helpful.

Vincent Paul Berger

CFO, Executive VP and President of Hearth & Home Technologies

Yes. On the federal side, it's an important part of the business, but it's a small part of the business. Let me start there. When we look at the whole portfolio across workplace furnishing. So we're approaching it right now, no changes and we're just going to continue to monitor. We still have selling capabilities in forces addressing the opportunities here and it's an area where we can grow. But for now, it's a little bit of status quo.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes, we haven't really seen any changes on buying patterns or anything yet. There's obviously a lot of dust in the air, but right now, we're going to stay the course. And like you said, there's probably going to be puts and takes there over the course of the next couple of years. But we like our position, and we're going to stay present and invested in that space.

Reuben Garner

The Benchmark Company, LLC, Research Division

Great. And congrats on the strong close.

Operator

Your next question is from the line of Greg Burns with Sidoti.

Gregory John Burns

Sidoti & Company, LLC

Are you seeing any indications that SMB part of the business is -- I know it's probably shorter cycle so not as much visibility, but any indications there that you might be seeing improvement in demand or stabilization there. I did notice that like the SMB small business index was showing positive signs last couple of quarters post the election. Are you seeing anything in the market that might give you hope that, that SMB piece rebounds in '25?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Greg, that's a good question. I mean right now, we're kind of flattish in that space. We like our -- we like our position. We know as it turns, we'll be there and -- but it's a little early to call that. I think it really suffered from kind of the hangover of the election kind of going in, ending the year and it's been a little rocky to start. But as things stabilize, I would anticipate that we'll see some revenue upside towards the back half of the year.

Gregory John Burns

Sidoti & Company, LLC

Okay. And then with the tariffs, it sounds like you're going to be able to offset them on a concurrent basis, maybe not so much in the first quarter. In the past, I always thought there was like maybe a little bit of delay on your ability to pass through price and that work its way through the system. Why are you able to offset the tariffs on like contemporaneous like in quarter basis going forward?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. That's a good question, Greg. I think we won't be able to do it in the first quarter just because we've chosen -- we're not -- it's been kind of fast and furious and we're going to push the backlog out. But this time, maybe from the last time, we're going to take a surcharge approach as opposed to permanent price list price adjustment. That's point 1 because these things kind of come and go, and it's more dynamic, I think, than last time. So that's a quicker mechanism than pushing a list price adjustment through. And I think it's a fair approach for our customers.

And we're also -- look, we're also working on our supplier concessions. We're looking at our productivity all to get to a neutral place on this and be fair to everybody involved. But the real bottom line is we're going to surcharge it, which we can move in a week or 2 fairly quickly.

Gregory John Burns
Sidoti & Company, LLC

Okay. Great. And when we think about maybe revenue growth this year, volume is picking up, what's your typical incremental margins on the top line growth you're projecting?

Vincent Paul Berger
CFO, Executive VP and President of Hearth & Home Technologies

Yes, I think it's fair to say now with the productivity improvements in workplace, you can consider 40-plus percent from incremental margins on the core business, both residential and workplace furnishings. And I think the important -- 1 more comment there, that's while still investing. So the investments that Jeff was talking about, I was talking about in residential is we continue to expand those margins while doing that.

Operator

Your next question is from the line of Steven Ramsey with Thompson Research Group.

Steven Ramsey
Thompson Research Group, LLC

I wanted to think about near-term residential, maybe you can extrapolate to the mid- to long term, if there is any. But the resi outlook for mid-single-digit growth in the first quarter, yet orders up 8% and that's continuing. Can you maybe clarify what's kind of driving the delta there? And if it is a delay, if it helps Q2.

Vincent Paul Berger
CFO, Executive VP and President of Hearth & Home Technologies

Sure. So I think we got a -- Q1 is obviously the smallest year -- smallest dollar amount from a seasonality standpoint. So we can start there. When we talk about up mid-single digits, we look at 2 markets, we look at the new home market and the residential remodel. So I think it's important to talk about both. The new home market, as we see right now, Q4 were actually down 2%. But we see that market continuing to improve, and it has each quarter over the last 4 quarters to now almost be at a flat to a breakeven point.

If I look at the last 90-day permits, which is a great indicator for us, on kind of forward-looking demand. That's actually flat as well. So we see that stabilizing. When I look at the plus 8 in orders, the important number in there is actually the remodel retrofit. We're coming off of a very low comp. We've got 2 years of down 40% if I look at the last 2 years of residential. So this is why we have confidence that we think we can start -- we will start seeing some growth in that area. And that will obviously continue through and build as we go through the year.

Steven Ramsey
Thompson Research Group, LLC

Okay. Helpful. And then thinking about workplace, you talked about the extended time line between conversations to order to sale, I'm curious if both customer bases are still moving slow, that is contract in SMB. And is that time line shrinking at all?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Steve, that's a good question. I think we're -- there's a lot of noise in the system right now. I would have told you that it was starting to shrink, but then kind of year-end and tariffs and some of the just kind of noise kind of - I think it slowed that -- I think we're kind of in a status it's not extending anymore, but I don't it's a little too early to call whether that trend will continue or we've got -- I think whatever we have is a bit of a temporary pause, but I did see that working its way slowly working its way down the timeline. And I would say, right now, we're in a position of kind of a whole pattern given -- kind of given some of the things that are happening.

Steven Ramsey

Thompson Research Group, LLC

Okay. And to make sure that this dynamic is embedded in the full year guidance and kind of that time line of improvement starting in Q2, I assume.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

It is, Steven. It is. That is -- that we've tried to the best of our ability. We've lived with this for a bit now. So the businesses have adjusted their process to account for that. So yes, that is embedded in our full year look.

Steven Ramsey

Thompson Research Group, LLC

Okay. Helpful. And then last thing for me. You did a good job managing SG&A in 2024, is this a positive factor again in 2025, just the SG&A line growing at a slower rate than sales.

Vincent Paul Berger

CFO, Executive VP and President of Hearth & Home Technologies

We actually have SG&A in 2025 growing as a percent. This is to Jeff's point about time of investments and keeping it relatively steady throughout. So I think it's the correction SG&A in this year was adjusting for actually the rightsizing the business while investing. Now it should stay pretty steady. And that remark is a percent of sales, just so we're clear on the math.

Operator

[Operator Instructions] Your next question is from the line of Brian Gordon with Water Tower Research.

Brian Gordon

Water Tower Research LLC

First, I just wanted to say, congratulations on the strong margin performance in a challenging environment. I guess my first question would be what you might be hearing from your contract customers on where they stand with respect to return to office and how they might see those trends play out over the next year or 2.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes, that's a good question. I think there's more momentum building on return to office kind of in the trenches. And it's -- so the good news on a macro standpoint, I think there's more conversations, there's more activity. It still is a little bit case by case. Every business is a little different, and they're all -- the good news is if you cut the pie chart up, there's more people talking about it and planning for it than there was a year ago, and I see that continuing.

How they execute, the timing of execution is still a little bit case by case based on the business model. But it is continuing to trend in that direction from our perspective, and that's what we're kind of seeing on a day-to-day basis. And every time that happens, whether they're shrinking, moving cities, going from

hybrid 3 days to 4 days, all those are furniture events, and they all are spawning dialogue and discussion about how best to accommodate and actually make it a great experience for their employees and make the investment so that those employees will want to return or at least not be struggling with the return.

Brian Gordon

Water Tower Research LLC

That definitely makes sense. I just want to dig in a little bit more on the SMB side of the business. Why do you think at this point, SMB might be lagging behind contracts a little bit? Is this kind of more you think an industry effect, a balance sheet effect, growth effect, what do you think might be driving some of this given the fact that it's a volatile business, of course?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. Well, I think 2 things. One, that business has been really strong on a 2-year kind of run rate. So maybe there's a little bit of a natural breather there. But the fact of the matter is the contract, as we've been talking about, has been building for quite some time. And this -- the comments we just talked about return to work were more twinkle in your eye and now they start to become reality.

And I think my sense is even though there's disruption in kind of the market right now and tariffs, those customers are -- they've studied this enough now and they're moving forward. And look, the SMB folks, they have the luxury to be able to kind of pause on a dime. And that's -- I think it's no more, no less than that, Brian. It's 1 is longer cycle. And the fact like we talked about, it has gotten a little longer. But the commitment is still there and the SMB has taken a bit of a breather like always we've historically seen this almost every time there's a disruption in the economy that the SMB can kind of flatten out or turn negative, but they turn on fairly quickly as well.

Brian Gordon

Water Tower Research LLC

Great. And good luck with the quarter.

Vincent Paul Berger

CFO, Executive VP and President of Hearth & Home Technologies

Thanks.

Operator

At this time, there are no further questions. I will now hand today's presentation back over to our presenters for any closing remarks.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

All right. Well, appreciate everybody's time today. Thanks for joining us and spending some time with us. Have a great day.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines.

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